

AR27

PHILIPS ANNUAL REPORT 1973



Cover

The electrochromic effect.
The conduction of current through a colourless organic liquid gives rise at an electrode to a coloured substance, here purplish-red, that can be used for alpha-numerical display devices.

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Philips from 1964 to 1973

Supervisory Board

F. J. Philips	Chairman; Delegate Member
P. C. M. van Campen	Vice-Chairman
C. R. C. Wijckerheld Bisdom	Secretary
H. M. van Mourik Broekman	
J. W. de Pous	
W. A. de Jonge	
H. J. R. G. Hartong	
T. P. Tromp	
N. van der Vorm	
J. G. Bavinck	
J. Rey	

Board of Management

H. A. C. van Riemsdijk	President
P. H. le Clercq	Vice-President
D. Noordhof	Vice-President
P. C. Breek	
A. E. Pannenburg	
L. J. Wijns	
A. E. van Mourik	
J. J. Spijkerman	
N. Rodenburg	
J. W. G. Offergelt	

AR27

file
PHILIPS ELECTRONICS INDUSTRIES LTD.,

FOR IMMEDIATE RELEASE THURSDAY, JUNE 15, 1972

Philips Electronics Industries Ltd. reports that during 1971

B. N. A. Holdings Limited and its consolidated subsidiaries had sales of \$72.1 million, and a loss for the year of \$890,391.

The loss is after charging to results \$750,000 of costs related to the previously announced discontinuance of its car radio, car cassette recorder, and metal fabricating activities.

While these activities were discontinued, major progress was made in the lighting field and in colour television. In lighting, full production was reached in new factories at London, Ontario and St. Jerome, Quebec; and production began at Toronto of newly developed modular television sets of Canadian design, which are receiving enthusiastic market acceptance. The considerable expenses involved in the increased penetration into these areas of activity also bore heavily on the results during the year.

Included are the operations of all Philips companies in Canada with the exception of the sales of Double Diamond Electronics Limited.

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PHILIPS ELECTRONICS INDUSTRIES LTD.



45 1030

Philips in 1973

	1973	1972
Sales		
In millions of guilders	22,563	19,924
Percentage increase on the preceding year	13	10
Trading profit		
In millions of guilders	2,597	1,975
As a percentage of sales	11.5	9.9
As a percentage of total capital employed	11.5	9.4
Profit after tax		
In millions of guilders	966	745
As a percentage of sales	4.3	3.7
Net profit		
In millions of guilders	899	717
As a percentage of shareholders' equity interest	11.3	10.1
Per ordinary share of f 10 (in guilders)	5.17	5.31
Retained profit as a percentage of net profit	61	62
Dividend per ordinary share of f 10 (in guilders)	1.80*	1.80*
Capital		
Total capital employed, in millions of guilders	24,187	22,131
Shareholders' equity interest, in millions of guilders	8,450	7,430
Shareholders' equity interest per ordinary share of f 10 (in guilders)	51.64	58.32
Employees		
Total number at end of year	402,000	371,000
Number in the Netherlands	97,000	97,000

Translation (English edition)

Note for American readers:

The terms current in the U.S.A. for trading profit, ordinary shares, share premium account and stocks as used in this report are: income from operations, common shares, additional paid-in capital, and inventories.

With regard to the figures per ordinary share it should be noted that the total number of issued shares at 31 December 1973 includes the 25% increase of share capital resulting from the conversion of share premium capital in 1973.

* See Profit Appropriation on page 45.

This report includes the information received from the Hartford National Bank and Trust Company, Trustee under Indenture dated 19 December 1956 (United States Philips Trust).

**Abridged Statement of
Financial Position**
(combined)

	1973	1972		1973	1972
Buildings, machinery and other property, plant and equipment	8,358	7,587	Shareholders' equity interest	8,450	7,430
Subsidiaries and associated companies (non-consolidated)	610	578	Minority interests	1,023	907
Sundry non-current assets	690	623	Sundry provisions	3,454	2,837
Stocks	6,430	5,423	Long-term liabilities	3,751	4,107
Accounts receivable	6,852	6,106	Current liabilities	7,260	6,656
Liquid assets	1,247	1,814	Profit available for distribution	347	270
			Interim dividend made payable in December	-98	-76
	<u>24,187</u>	<u>22,131</u>		<u>24,187</u>	<u>22,131</u>

**Abridged
Statement of Results**
(combined)

	1973	1972
Sales	<u>22,563</u>	<u>19,924</u>
Trading profit	2,597	1,975
Other income and charges	-668	-511
Tax on profit	<u>-963</u>	<u>-719</u>
Profit after tax	966	745
Share in net profit of non-consolidated companies	61	62
Minority interests	<u>-128</u>	<u>-90</u>
Net profit	899	717

Report of the Supervisory Board

The Annual Accounts of N.V. Philips' Gloeilampenfabrieken for 1973, presented to you by the Board of Management, have been examined by Messrs. Klynveld Kraayenhof & Co., Registered Accountants. Their report appears on page 30. We ask you to adopt the Annual Accounts, in accordance with the recommendation of the Board of Management, and the dividend proposal made in the Board of Management's Report.

At the General Meeting of Shareholders held on 18 April 1973 Mr. N. van der Vorm and Mr. C. R. C. Wijckerheld Bisdom retired by rotation from the Supervisory Board, and were re-elected.

An amendment of the Articles of Association, made necessary by a change in Netherlands legislation, was proposed and adopted at that meeting.

The Extraordinary General Meeting of Shareholders held on 24 September 1973 unanimously adopted the Board of Management's proposal, approved by the Supervisory Board, to convert share premium capital into share capital by

the issue of one new share for every four shares outstanding. These new shares rank *pari passu* with the old shares as from the date of issue.

Pursuant to the new legal requirements in the Netherlands Mr. J. W. de Pous retired from the Board at this Extraordinary General Meeting, having served on the Supervisory Board for a period of four years. After complying with the relevant provisions of the new legislation, we re-elected Mr. J. W. de Pous to our Board with effect from 6 December 1973.

Mr. H. M. van Mourik Broekman and Mr. J. G. Bavinck retire by rotation this year; both are eligible for re-election.

Having reached the legally prescribed age limit Mr. J. Rey will retire from the Supervisory Board this year and will not be eligible for re-election.

We conclude by expressing our great appreciation and thanks to the Board of Management and staff for what has been achieved in the past year.

Eindhoven, 12 March 1974

The Supervisory Board

1 Analysis of chemical substances with Pye Unicam's atomic absorption spectrophotometer.

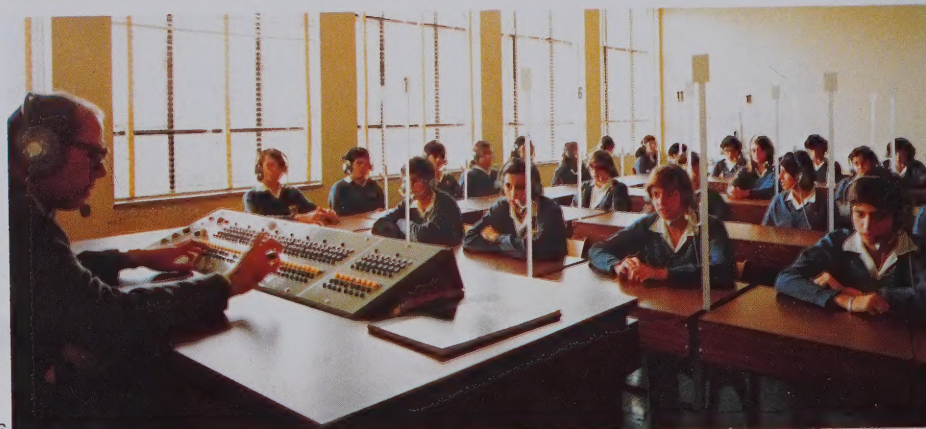
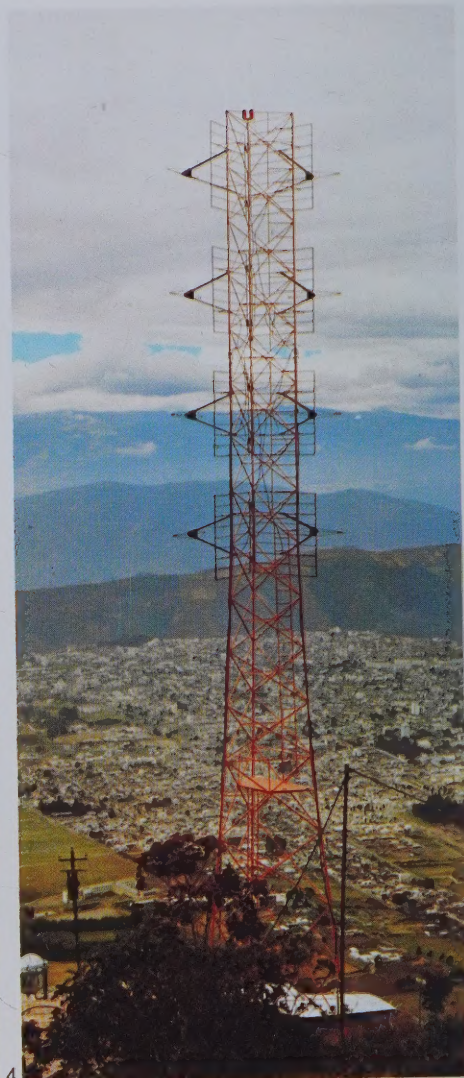
2 The national stadium in Lagos (Nigeria), with seating for 60,000 spectators, is illuminated by a total of 342 HPI/T 2000 W high-pressure metal halide lamps in HNF 006 floodlights mounted on four masts 62 metres high.

3 The manufacture of cable harnesses for telephony in one of our factories at Singapore.

4 Repeater for colour television transmissions at Quito (Ecuador).

5 Head office of the Philips organization in Guatemala City.

6 Language teaching in Lima (Peru).



Report of the Board of management

The year 1973 was a good year for our business. The growth of sales compared with that in 1972 was higher than we expected. Profits showed a gratifying increase.

Sales in the year under review totalled f 22,563 million, which is 13% more than in 1972. Trading profit, expressed as a percentage of sales, was 11.5% in 1973 compared with 9.9% in 1972, amounting to f 2,597 million as against f 1,975 million. Profit after tax rose in 1973 to 4.3% of sales as against 3.7% in 1972. Net profit in 1973 as a percentage of shareholders' equity interest was 11.3% compared with 10.1% in 1972, amounting to f 899 million as against f 717 million. Net profit per ordinary share in 1973 was f 5.17 compared with f 4.24 in 1972 (recalculated to allow for the 25% increase in share capital out of Share Premium Account).

In accordance with article 42 of the Articles of Association it has been decided to retain part of the net profit by way of reserve. Retained profit for 1973, taking into account the results of the United States Philips Trust, is f 552 million or 61% of net profit. We recommend the declaration of a dividend of f 1.80 per ordinary share, and propose that holders of ordinary shares who have not opted on or before 31 July 1974 for the payment of a final cash dividend of f 1.20 shall receive a distribution of ordinary shares, charged to Share Premium Account, free from Netherlands tax, on the basis of one ordinary share for every 25 shares. In so far as shareholders do not exercise the option to receive the final dividend in cash, the amount not distributed in cash will be retained by way of reserve.

We wish to pay tribute here to those of our staff who died in the past year. We remember with deep gratitude their services to the Company.

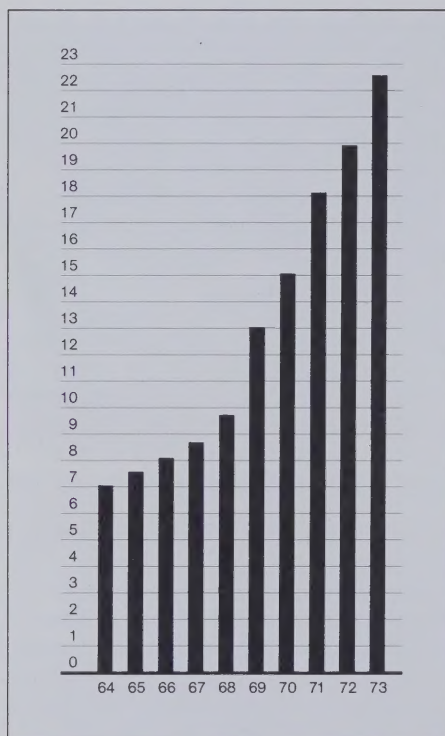
* * *

Private enterprise, which must necessarily respond promptly and effectively to needs that arise in society, is especially fitted to contribute towards the solution of problems stemming from the great changes taking place in so many fields. By virtue of its knowledge and experience, our Concern was again in a position in 1973 to make such a contribution.

There is a strongly growing demand for fast and reliable electronic systems in connection with, for example, the introduction of new techniques in education and health care, automation and the increase in the scale of industrial production, the growth of various forms of transport and the increased requirements imposed on information and communications. Our technologies constantly provide new ways and means of meeting the needs arising out of these developments. We analyse these needs in close collaboration with users of our systems. Prototypes designed on the basis of these analyses must be carefully tested for their practical usefulness. An interesting topical example is our cooperation with the Netherlands General Post Office in work on the video telephone. Such an intensive and time-consuming process of preparation imposes high demands on our long-term planning.

The research work of our scientists is receiving additional impetus from the growth of problems connected with environmental control, the supply of energy and the availability of certain raw materials. Our research laboratories and development departments have therefore

World sales
in thousand-millions of guilders



been devoting great attention for a long time to the design of products and systems that use energy more economically, to the development of substitute materials and to the study of their possible applications. These investigations, which also extend to the design of production techniques that permit optimum use of raw materials, have already yielded important results and will in future be vigorously pursued.

The growth of prosperity in recent years has imposed a greater burden on the environment. In many countries the regulations to protect the environment have become much more stringent. Although the quantity of waste products from an electrical and electronics industry is in general relatively small, special investigations are nevertheless frequently needed in order to be able to comply with these regulations. By modifying manufacturing processes in our chemical plants we have achieved a high degree of success in the recovery and recycling of chemicals.

The upswing in economic activity, which began in 1972, continued strongly in the first half of 1973. The boom, which occurred simultaneously in nearly all countries, was accompanied by mounting inflationary pressures throughout the world. Although the rate of economic growth slowed down in the second half of the year, especially in the last quarter, efforts to combat inflation had little success. This was partly due to the marked and in some cases exceptionally steep rise in the prices of primary commodities and energy, which will adversely affect the real growth of income in a large part of the world and add to the inflationary trend. The resultant deterioration of the terms of trade which is taking place at the same time in many countries involves

furthermore the threat of increasing economic nationalism, which would be an obstacle to the expansion of world trade and to the growth of international prosperity. A favourable aspect in this connection was the gradual improvement of the American balance of trade, since it has helped to put an end to the considerable undervaluation of the American dollar, which would increasingly have distorted international competitive relationships.

The international monetary unrest, reflected in erratic and often large fluctuations in exchange rates, is a threat to the advancement of prosperity in the world. Effective international cooperation is therefore essential in order to ensure that economic stability and the development of world trade are not disrupted. In this context we remain convinced of the great importance of the further development of the European Economic Community into an economic and monetary union.

ACTIVITIES

Total sales in 1973 amounted to f 22,563 million. This is f 2,639 million or 13% more than in 1972. The sales increase in terms of volume was about 18%. Of these percentages 3% is due to new consolidations, including Ignis and IRE, two Italian companies operating in the field of major domestic appliances. The growth of sales expressed in guilders was depressed by changes in currency exchange rates, which was only to a small extent offset by price adjustments.

Out of total sales, 72% were in Europe (70% in 1972), 17% (19%) in the Western hemisphere, and 11% (11%) in the other countries.

The change in the percentage geographic distribution of sales is largely due to the above-mentioned consolidations and to the marked increase in the sales of colour television sets and associated

components in Europe. Another contributory factor was that sales outside Europe, converted into guilders, were subject to a greater extent than in Europe to the depreciatory influence of the changes in the relative values of the currencies.

In 1973 the following product divisions achieved sales totalling more than one thousand million guilders: Video f 3,100 million, Elcoma f 2,900 million, Lighting f 2,500 million, Telecommunications and Defence Systems f 1,700 million, Audio f 1,600 million, Major Domestic Appliances f 1,200 million, and Electro-Acoustics f 1,200 million.

In the category of **consumer goods** sales increased by 16% (11% without the consolidation of Ignis/IRE). The growth in this sector was again largely due in 1973 to the marked increase in the sales of colour television sets. Higher sales of major domestic appliances, of HiFi equipment and of car radios also contributed to the overall increase.

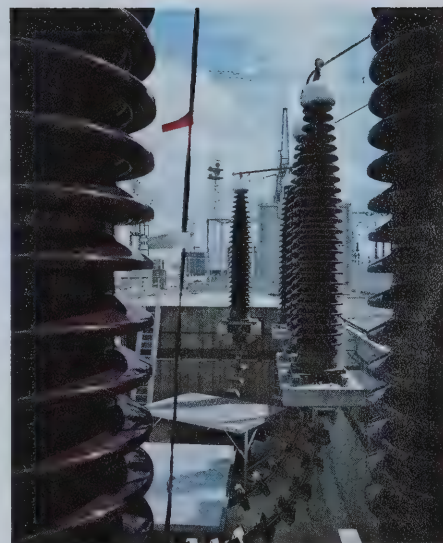
In the **professional equipment** sector sales were up 8%. Marked increases were shown in particular by the sales of medical equipment and computer systems. The growth of sales in the sector of telecommunications and defence systems was satisfactory. The sales

of industrial equipment showed an upturn.

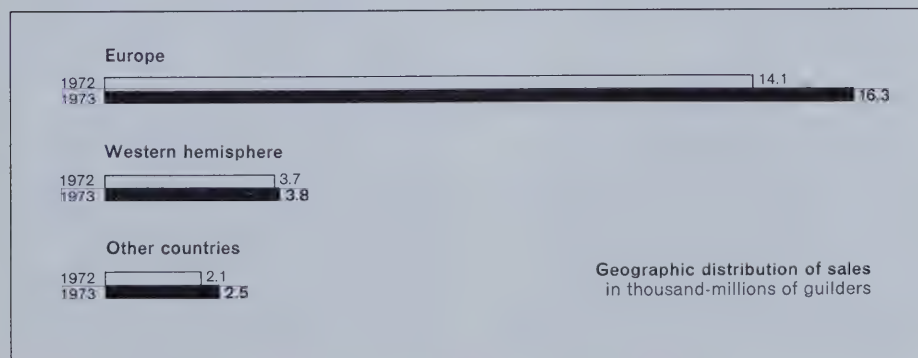
In the year under review the Compagnie Internationale pour l'Informatique (CII) in France, Siemens in West Germany and our Company entered into an agreement to cooperate in the computer field. This agreement, which led to the formation of Unidata, is an important step on the road towards an integrated European industry for electronic data processing products.

The growth of sales in the **electronic components** sector (16%) was largely attributable to the favourable development of the colour television market in Western Europe, causing a marked increase in the demand for colour television tubes and components. The sales of semiconductor devices and integrated circuits were moreover stimulated by the rapid change-over to full transistorization in video and audio equipment and also in professional equipment. Since the demand for components was greater than expected, it could not entirely be met, in spite of strenuous efforts.

The sales of the **pharmaceutical chemical** group rose by 6%. The sales increase expressed in guilders was severely affected by the low exchange rate of the U.S. dollar, as the United States of America account for more than half of this



Terminations of 380 kV cable circuits designed and installed by NKF.





Speech lesson for deaf children in Bombay.

group's turnover. Sales were up in all sectors of the group.

Further information on the activities of the product divisions in 1973 will be found on pages 16 to 28 of this report.

The sales of **NKF GROEP B.V.**, one of the main cable manufacturers in the world, rose in 1973 by 23% to f 1,335 million. The steep upward movement in the prices of copper, lead and aluminium, which are raw materials of major importance to the NKF GROEP considerably influenced the growth of sales, expressed in guilders.

As in 1972, the demand for plastic-insulated telecommunication cables was below expectations. The trend of business both in power cables and in low-voltage cables was satisfactory. Oil-pressure cables for high voltages remained in great demand.

Important export orders were received for various types of power cables and telecommunication cables.

Sales in the plastics sector rose substantially. The market price level, however, remained a source of concern.

In spite of the improvement in the prices of steel products, the net results of NKF STAAL showed a decrease owing to the steep rise in the prices of scrap-metal, the principal raw material for this industry. The collaboration with August Thyssen-Hütte A.G. remained important in the year under review.

PROFIT

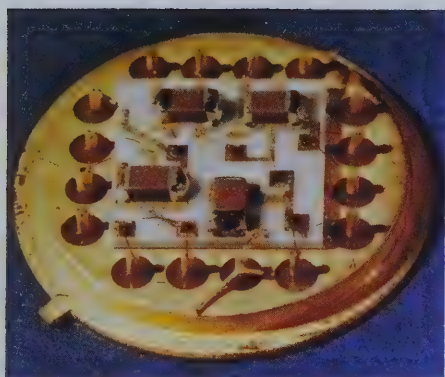
Trading profit in 1973 was 11.5% of sales (f 2,597 million) compared with 9.9% of sales (f 1,975 million) in 1972. Net profit amounted to f 899 million (f 717 million in 1972).

In line with the target we had set ourselves for the year under review, we succeeded in improving

profitability. This was partly made possible by the fact that the greatest growth was shown by the sales of products with a relatively favourable profit margin. In addition, the capacity of our production and selling organizations was better utilized. The otherwise favourable improvement of efficiency was not sufficient to compensate entirely for the particularly marked rise in wages and the prices of materials.

In the **consumer goods** sector the substantial growth in the sales of colour television sets made an important contribution to the increase in trading profit. A significant contribution also came from the results on HiFi equipment and car radios. The profitability of lighting articles decreased slightly owing to the fact that, as a result of price controls and keen competition, the increase of costs could not be fully offset by the adjustment of selling prices. The improvement of results on refrigerators and washing machines continued in the past year. Selling prices of personal care articles, as expressed in guilders, were adversely affected by the low exchange rate of the U.S. dollar, a significant proportion of these articles being sold in the United States of America. Profit on small domestic appliances increased slightly due to improvements in the composition of the range.

In the **professional equipment** sector, profit on telecommunications and defence equipment was maintained at roughly the same percentage. Trading profit on industrial equipment went down, because owing among other things to American competition the level of prices could not sufficiently be adjusted to reflect the rise of costs. The same applied, though to a lesser extent, to medical equipment. In connection with the further build-up of the Data Systems division an amount equal to approximately 1%



Broadband amplifier module for carrier telephony, made with the aid of the titanium-platinum-gold metallization technology to give high operating reliability (diameter 15 millimetres).

of total concern sales was charged to profit and loss account.

Trading profit in the **electronic components** sector rose substantially, mainly as a result of a marked increase in the sales of colour television tubes, semiconductor devices and integrated circuits.

Trading profit in the **pharmaceutical-chemical products** group improved slightly.

Profit after tax totalled f 966 million in the year under review, representing 4.3% of sales (3.7% in 1972). The growth of profit after tax is mainly attributable to the improvement of trading profit commented upon above. Another significant factor was the reduction of financing costs by the repayment of interest-bearing debts. In accordance with our principles of valuation a net amount of f 104 million in respect of adverse exchange rate differences was charged to profit and loss account under the heading "Other income and charges". A loss amounting to f 84 million resulting from the conversion into guilders of the net assets of the United States Philips Trust at the lower dollar exchange rate (f 2.80) was deducted from profit under the same heading.

Minority interests in the profit of consolidated companies rose from

f 90 million to f 128 million. This was mainly due to the increased interest of third parties in Pye Holdings Ltd., resulting from the conversion of Pye options into shares which took place in the middle of 1973.

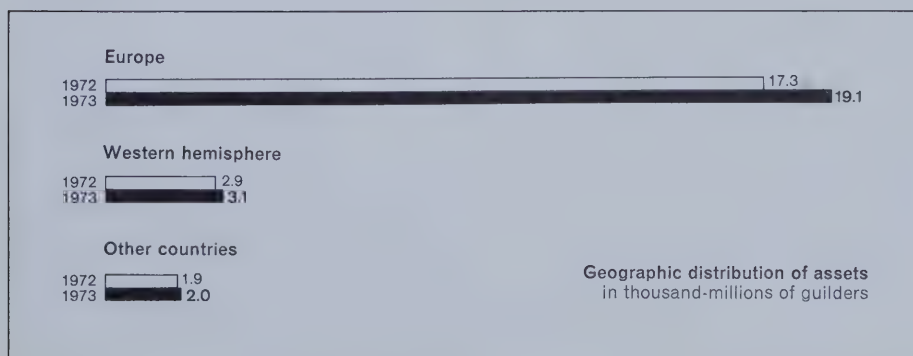
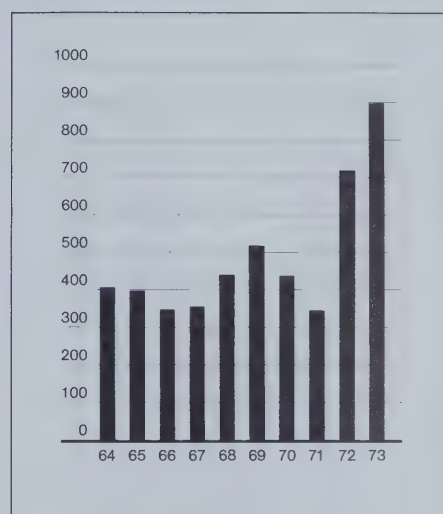
ASSETS EMPLOYED AND FINANCIAL POSITION

The growth of sales (13%) was achieved with a smaller increase of total capital employed (7%); as a result the rate of capital turnover improved, from 0.94 in 1972 to 1.00 in 1973. Net acquisitions of property, plant and equipment in 1973 totalled f 1,005 million. An amount of f 931 million accrued from depreciation. In 1972 the corresponding figures were f 906 million and f 895 million.

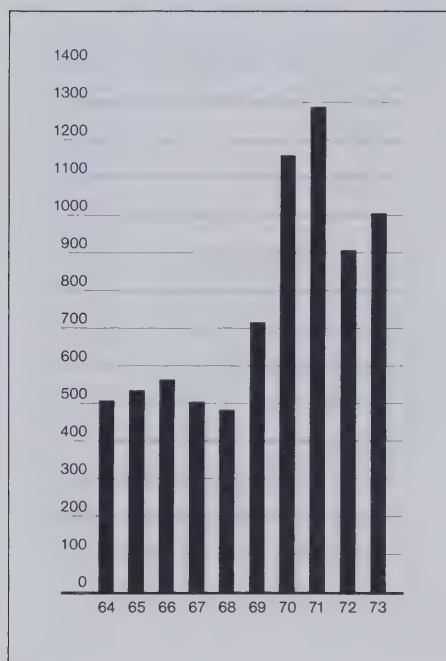
Our **investments** in property, plant and equipment in 1973 related to replacements and production rationalization as well as to the enlargement of capacity. In both categories the emphasis was on Western Europe, where net acquisitions of property, plant and equipment amounted to 80% of net capital expenditure (85% in 1972).

During the year under review considerable expansions of production capacity were completed in Winschoten (glass for television tubes) and Oosterhout (magnetic tapes), both in the Netherlands. In Spreitenbach (Switzerland) a new

Net profit
in millions of guilders



New factory in Manaus, the capital of the state of Amazonas in Brazil, which has an annual production of nearly half a million portable radio sets, manufactured using our techniques.



Property, plant and equipment net acquisitions for year in millions of guilders

forwarding centre came into operation, and in Roosendaal (Netherlands) a new development laboratory for "TL" fluorescent lamps. Outside Europe production capacity was expanded in Bangkok (TV assembly factory) and Singapore (mechanical engineering plant and a factory for the manufacture of telecommunication systems). Servicing centres were established in Bursa (Turkey) and in Lusaka (Zambia).

Expansion projects will be carried out in Brazil (Small Domestic Appliances and Elcoma), Singapore (Small Domestic Appliances, mechanical engineering plant and Audio) and Taiwan (Elcoma). In Europe production capacity will be increased for colour tubes (e.g. in a new factory in Austria) and for other colour television components. Other investment projects envisaged in Europe relate to replacements aimed at improving production efficiency in countries where a great deal is already being produced, and also to the development of products in the Lighting, Video, Audio, Electro-Acoustics and Medical Systems sectors.

The item "Investments in non-consolidated subsidiaries and associated companies" rose by f 32 million to f 610 million. The addition of our share in the net profit for 1973 of the companies concerned accounts for an increase of f 61 million in this item. The consolidation of inter alia Ignis/IRE, and of some finance companies in which Philips Finance Company N.V. acquired a majority interest in 1973, accounted for a decrease of f 57 million.

Stocks at the end of 1973 amounted to 28% of sales (27% at the end of 1972). In judging this percentage it should be borne in mind that stocks in certain sectors were too low, since production capacity was not

sufficient to bring stocks to the level required to meet the rapidly increased demand for finished products.

The average **credit period** for trade debtors remained unchanged at 2.6 months.

In the year under review we redeemed before maturity a number of large loans and some bank loans. Partly as a result, **liquid assets** went down to f 1,247 million (f 1,814 million at the end of 1972). In view of the ample credit facilities at our disposal, the level of liquid assets is entirely satisfactory.

At the end of 1973 the territorial distribution of our assets — expressed in guilders — was as follows: Europe 79%, Western hemisphere 13%, and other countries 8%. At the end of 1972 the corresponding percentages, recalculated to allow for exchange rate adjustments, were 80, 12 and 8.

As appears from the Combined Statement of Changes in Financial Position on page 40, the additional funds required were mostly obtained from internal sources.

The redemption of interest-bearing debts was stepped up in the year under review. The amount of U.S. \$ 200 million outstanding at the end of 1972 on the U.S. \$ 250 million variable-interest Eurodollar loan was redeemed before maturity, and so too was a similar Eurocurrency loan of U.S. \$ 25 million. We also redeemed a 3-year 8% notes loan of f 100 million. Furthermore the total amount outstanding in bank loans and other current liabilities was substantially reduced. No new notes or debenture loans were issued in 1973.

Taking advantage of the favourable conditions in the Eurocurrency market we negotiated in the course of 1973 long-term flexible credit facilities from various banks

totalling more than U.S. \$ 500 million. No call has yet been made on these facilities.

Mainly as a result of the increase in non-interest-bearing liabilities and provisions, total liabilities show a net increase of f 920 million. At the end of 1973 the share of long-term liabilities in this total was 43% as against 45% at the end of 1972. Current assets as a ratio of the sum of current liabilities, short-term provisions and profit available for distribution decreased from 1.8 to 1.7. Total liabilities as a percentage of total capital employed amounted to 61% (62% at the end of 1972).

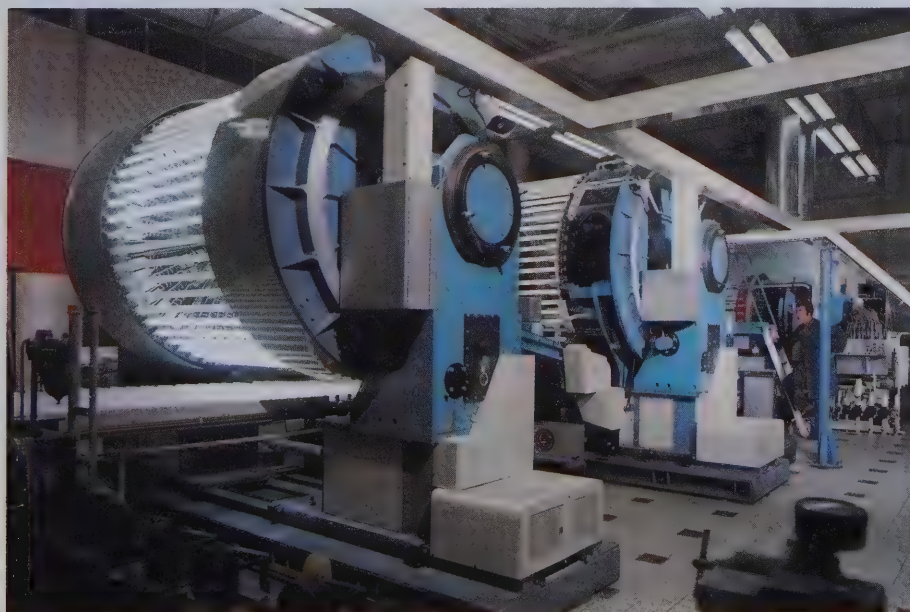
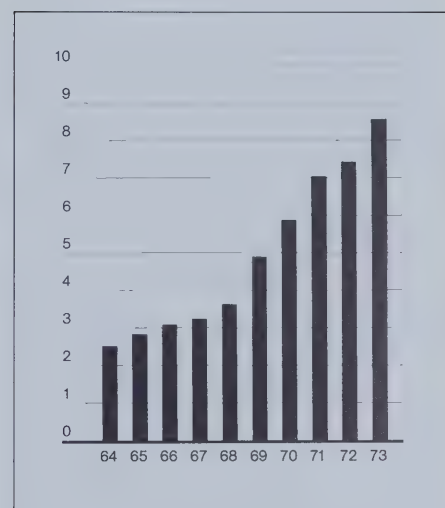
By not opting for a cash distribution, 96% of our shareholders availed themselves of the opportunity offered them to receive the final dividend of f 1.20 for 1972 in the form of ordinary shares, on the basis of one ordinary share for every 40 ordinary shares, charged to Share Premium Account. Consequently, the ordinary share capital rose by f 31 million and retained profit by f 147 million, while Share Premium Account decreased by

f 31 million. Shareholders' equity interest, taking into account the results of the U.S. Philips Trust, increased by f 552 million in respect of retained profit in 1973 and by f 298 million in respect of revaluation.

In addition, ordinary share capital rose by f 327 million, while Share Premium Account decreased by the same amount, as a consequence of a decision taken by an extraordinary general meeting of shareholders held on 24 September 1973 to convert part of the Share Premium Account into share capital, one new ordinary share being issued for every four ordinary shares outstanding.

June 1973 marked the last opportunity to convert Pye options into shares of Pye Holdings Ltd. Pursuant to this conversion the third-party interest in Pye Holdings Ltd. rose to 39%, as a result of which the item Minority Interests went up by f 79 million.

Wages, salaries and other related costs
in thousand-millions of guilders



After thorough testing of the horizontal system of manufacturing "TL" fluorescent lamps, the first of a new generation of machines for manufacturing these lamps was put into operation at Roosendaal.

The video telephone can do much to improve long-distance person-to-person communication.



PERSONNEL POLICY

On 31 December 1972 the total number of employees was 371,000. The consolidation of some companies, principal among which were Ignis/IRE, with effect from 1 January 1973 brought the total to 382,000. In the course of 1973 the number of employees rose by 17,000 to 399,000. At 31 December 1973 this number had risen by 3,000 as a result of some consolidations.

In Europe the number went up by 10,000; new consolidations accounted for a further 12,000, bringing the total at the end of December to 318,000. In the Netherlands the number remained at about the same level.

Contrary to the expectation expressed in our last annual report, our labour force was increased in 1973 because the demand for certain products was greater than had initially been foreseen.

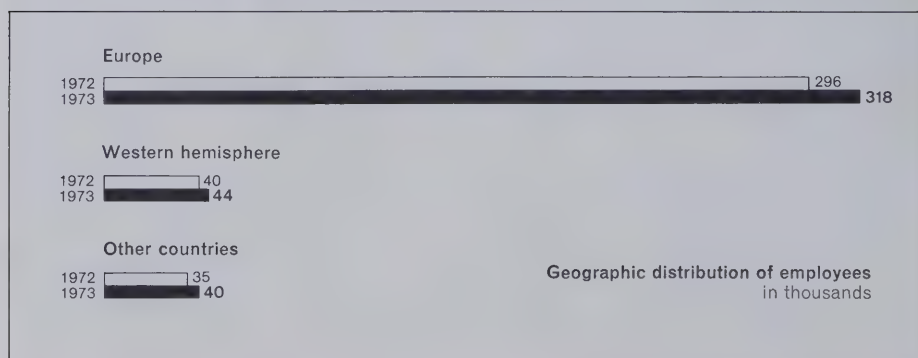
In Europe we, in common with others, are increasingly being confronted with a reduction in the supply of labour for certain types of work, such as shift work and work requiring little training. More emphasis is placed on production that calls for highly qualified labour, a trend we remarked upon in our 1972 report. Relatively simple, labour-intensive production activities are being expanded on a wider scale in Latin America and in

South East Asia, areas which not only present fewer problems as regards the availability of labour for jobs in this category but where it is also possible, creating useful employment, to participate in the growth of the market. Consequently the increase in the number of employees outside both Europe and North America was relatively greater than elsewhere in the world, even though, due to the consolidation of Ignis/IRE, this is not yet reflected in a change in the geographic distribution of our labour force.

At the end of 1973 the geographic distribution of employees was as follows: Europe 79% (80% at the end of 1972), Western hemisphere 11% (11%) and other countries 10% (9%).

Personnel policy in the countries where we operate is determined to a great extent by the specific circumstances in the country concerned. For of course terms of employment are primarily dictated by the conditions that have evolved in each country, by social legislation and customs, by the methods of tax imposition, the cost of living, and by other typically national or regional aspects. With regard to terms of employment our national organizations therefore pursue a policy that is geared to and integrated with the overall situation in the relevant countries.

As far as working conditions are



concerned we notice comparable developments gradually taking place in larger geographical areas. Examples are the widely felt desire of employees to exert more influence on the content of their own jobs and working conditions, the need for more responsibility and for opportunities of self-development. Our policy aims at anticipating such developments. The process of work structuring and job consultation introduced in a number of our organizations in Europe some considerable time ago aims at giving the employee wider personal responsibility and influence in his direct working situation. On the whole this widening of scope is appreciated, since it offers greater independence and greater freedom in the manner in which the work is done. It also appears from the technical and economic points of view that a more independent working group is in many cases a real alternative to the traditional production line. Such forms of organization can only succeed if management at all levels as well as the employees are closely involved in the whole process. For this reason we promote consultation at working group and departmental levels.

FUTURE

The year 1974 will be marked by the consequences of the increase in

the prices of raw materials and energy, by continuing inflationary trends and by the unsettled international monetary situation. It is difficult to predict the extent to which these factors — and their possible effects on the social climate — will slow down the rate of economic growth.

We expect that the percentage growth of sales volume in 1974 will be lower than in 1973.

Net capital expenditure in 1974 will be higher than in 1973. As in recent years, this expenditure will largely be financed with funds accruing from depreciation. Stocks as a percentage of sales could increase slightly in 1974. We are endeavouring to keep the credit period for trade debtors unchanged. In these circumstances, and given the credit facilities available, financing will not require special measures.

Our total labour force is not expected to change appreciably in 1974, although this year too there may well be variations in individual countries or sectors of the business.

Our aim is to maintain the overall level of profitability reached in 1973.

In the light of the many uncertainties these objectives face both management and staff with a difficult task. We are confident that together we shall be able to fulfil that task in 1974.



The various communication systems we supplied to the Kenyatta conference centre in Nairobi included a conference system and a simultaneous interpreting installation, as well as sound recorders, cinematographic projectors and lighting products.

A field of technical applications that is rapidly growing in importance is the visual presentation of information. Philips have a long tradition in the transmission of pictures or images, as in television or radiology. The new applications, however, relate primarily to the display of data, whether purely numerical as in measuring instruments or in simple calculation results, or alpha-numerical, i.e. both numerals and letters, as in larger information systems. Our research laboratories are working in this field on a number of methods that can be divided into active and passive systems. The components for active image display are self-luminescent, while those for passive display luminesce only under incident light. For the active systems we have developed a remarkably flexible technology for manufacturing gas discharge panels on which letters or numerals can be composed from points; using basically the same technology, panels can thus be made both for a small number of numerals and for a large amount of text. Research on solid-state, light-

emitting diodes, called LEDs, is aimed primarily at improving their luminous efficiency. As far as the passive devices are concerned, which in general require less power than the active types, we have achieved interesting results with liquid crystals both as regards improved contrast and the useful temperature range of the materials (e.g. from -20°C to $+70^{\circ}\text{C}$).

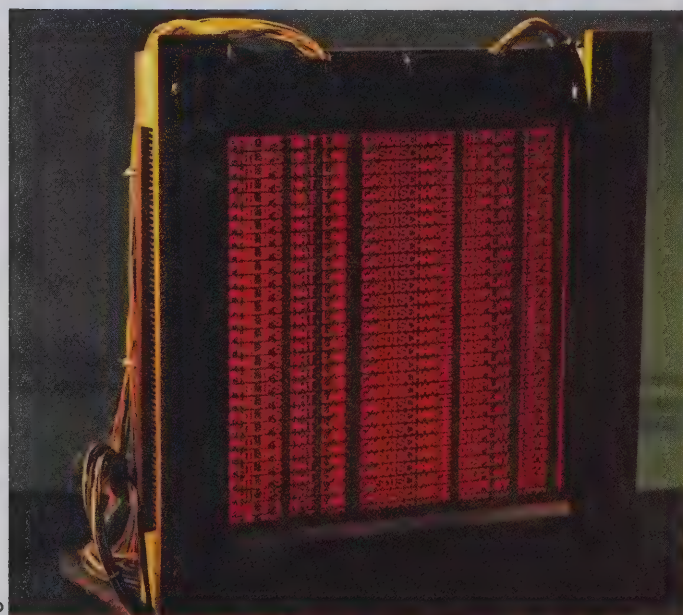
Research work has led to the development of a new electrochromic system for passive display, in which electrolysis causes strong localized colouration in a colourless organic substance. Speed, reversibility and repeatability appear to be sufficient for practical applications. The process has a pronounced memory effect, and little energy is needed during read-in and erasure. The numerical display is obtained, as with the liquid crystals, by means of an appropriate pattern of electrodes. For the display of complete pictures, to which the above-mentioned methods do not lend themselves so well, the French laboratories have developed a new electron tube that permits large-screen projection with

sufficient brightness on an area of about 20 square metres. The tube operates on a new principle, the light source not being the tube itself but a powerful lamp, the light from which, locally modulated via the tube, is projected on to the screen.

The laboratories at Hamburg have developed image-forming methods suitable for medical application. With an extremely low radiation dose, holographic-optical or electronic means are used to obtain cross-sections of three-dimensional X-ray images (tomosynthesis), each of which can be made separately visible on conventional display panels.

★ ★ ★

As the carriers of recorded signals, currently used magnetic tapes employ oxidic powders of magnetic materials, such as iron oxide and more recently chromium oxide. Iron particles, however, allow greater magnetization, and make it possible to improve the signal-to-noise ratio. In cooperation with the magnetic tape factory at Oosterhout, the



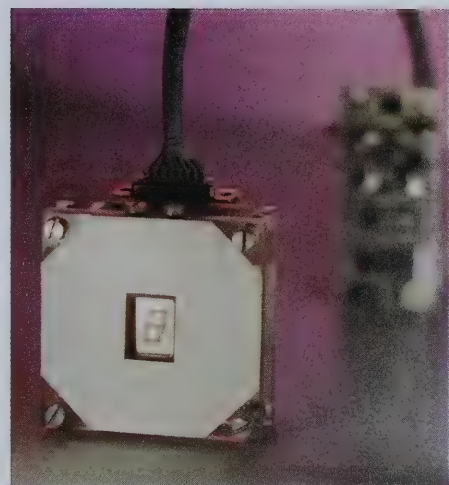
laboratories of Aachen and Eindhoven have designed methods for the mass production of very fine needle-shaped iron particles and methods for processing them into magnetic tapes.

In the field of integrated circuits a considerably improved type of charge transport circuit has been developed. In these Peristaltic Charge Coupled Devices (PCCD) a well defined quantity of charge, temporarily stored in a particular element in the semiconductor circuit, is rapidly and almost completely transferred to the next element by a very low switching voltage. The device can be used as an electrical delay line for various applications, for example in optical scanning devices.

The need to save energy and also certain materials, which has now come more into the foreground, has long been a guiding consideration in technology. A case in point in the year under review was the devising in the Aachen laboratories of a method for regulating the dissipation of stored heat. This ingenious method, which links up with a method of storing energy

previously developed in the same laboratories, results in a marked reduction of heat loss.

The development of a stirling engine, on which we are working in a cooperative arrangement with Ford Motor Company, has made good progress. The attraction of this type of engine was accentuated in the past year not only because its exhaust gases contain very few harmful components but also because its efficiency compares well with that of the internal combustion engine.



1 Experimental arrangement for large-screen projection of colour television pictures, using three "Titus" tubes, which modulate the light from a powerful light source.

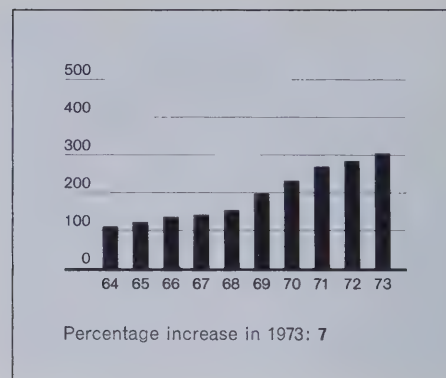
2 Gas discharge display panel. The text composed of light-emitting points can quickly be produced or altered.

3 Numerical cell in which liquid crystals bring about a strong colour contrast under the action of polarized light.

4 Electronic tomosynthesis. Using electronic means a number of radio-graphs taken from different directions can be combined to obtain a sharp image of a specific plane, while blurring out obstacles in front of or behind the plane.

5 Experimental version of a numerical cell in which the display is based on electrochromism (the colouration of a substance by electrolysis at the electrodes).





In the development of new products an important objective is to make the most economical use of the energy needed for lighting. Thus, in the year under review, a new fluorescent lamp was developed which, with excellent colour rendering, gives the same amount of light for 30% less power consumption. We also succeeded in raising the light output of our most economical light source, the low-pressure sodium lamp SOX, and a further improvement is envisaged in the coming years. This lamp, which is mainly used for road lighting, is also meeting with growing interest in North and South America.

In places where public lighting requires better colour rendering than is needed for example on highways, the high-pressure sodium lamp SON is being increasingly used. Good results have been achieved with them notably in Brussels, Madrid and in Central London. To permit the replacement of high-pressure mercury lamps by high-pressure sodium lamps in existing installations without having to alter lanterns and ballasts, we introduced a new variant of the high-pressure sodium

lamp, type SON-H. While consuming less power this lamp gives a higher level of illuminance.

The lighting level is determined not only by the luminous flux of the lamps but also by the performance of the luminaire (fitting) used. For public lighting we brought out a successful range of lanterns whose optical system makes it possible to use fewer light points, which offers economic as well as aesthetic advantages.

For the public display of moving or stationary texts we introduced the Visual Communication Display System, which operates with 700 electronically controlled lamps. This system is in use in the Amsterdam Stock Exchange.

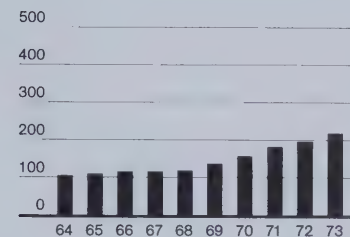
We are seeking in two respects to adapt our production processes to contemporary views. In the first place we are endeavouring to make further improvements in the working climate by means of organizational changes. Thus, the advent of the new generation of machines developed for the manufacture of fluorescent lamps has eliminated a great deal of

monotonous short-cycle work, making it possible to give the employees involved more personal responsibility for their work. In the second place our aim is to minimize adverse effects on the environment. A case in point is the production of fluorescent lamps mentioned above, for which we have introduced a miniature capsule which supplies exactly the amount of mercury required for each lamp. This substantially reduces the quantity of mercury used, and is therefore less harmful to the environment when the lamp is destroyed.

Prominent among the many outdoor lighting projects carried out was the traffic lighting for the bridge across the Bosphorus. Major indoor lighting projects included the installation in the second-largest covered stadium in the world, the Coliseo "El Campin" in Bogotá (Colombia), and the indoor lighting of the new 42-floor office building for the "Groupe des Assurances Nationales" in the Défense district of Paris.



The bridge over the Bosphorus between Europe and Asia, spanning more than one kilometre, has six traffic lanes which are illuminated with 132 SON/T 400 W high-pressure sodium lamps.



Percentage increase in 1973: 10

This product division, formed from the splitting of the former 'RGT' division at the beginning of 1973, primarily covers activities in the field of radio receivers and record-playing equipment.

In the radio market there was a strong growth in the demand for stereo HiFi equipment, for radio recorders and for car radios. Our sales of stereo HiFi equipment and car radios showed the greatest increase. There was also a slight increase in the sales of the important portables group. We improved or maintained our position in all sectors.

Our range of stereo HiFi equipment comprises a wide variety of both separate units and combined apparatus. The loudspeaker boxes play an important part in bringing about the desired reproduction quality. Hitherto they had to be fairly large in order to achieve a high sound quality. This drawback can now be overcome by a new loudspeaker system we have introduced, called the "motional feedback system". The boxes, although much smaller, have exceptionally good acoustic

properties and are particularly suitable for quadrophony, where the sound is reproduced through four channels.

There has been a marked growth of interest in the combined car radio and cassette recorder. We offer a wide range of this equipment, including stereo models.

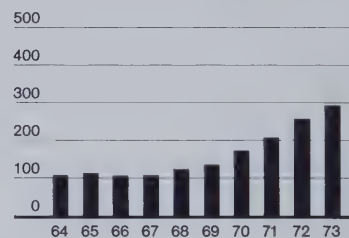
Our position in the market for record-playing equipment remained strong. We brought out a number of new HiFi record players. In the manufacture of this and other equipment the assembly belt system has been replaced by a working procedure in which teams of a few persons are responsible for the manufacture of the end product.

Important advances were made in the development of playback equipment for the video long-play record (VLP). During the "Funkschau" in Berlin and the "Vidca" in Cannes, demonstrations with equipment and record were given that attracted keen interest from the public and also from manufacturers of software (programmes for audio and video records and tapes).

1 The portable radio is an important means of communication and education in developing countries, as demonstrated here in a government-sponsored development project in Pakistan.

2 The new electronic HiFi record player GA 209 is fully automatic. After the record has been placed on the turntable the player automatically starts, selects the right speed and places the stylus in the run-in groove, irrespective of the diameter of the disc. No control needs to be touched for these operations.





Percentage increase in 1973: 13

This product division, formed from the splitting of the former 'RGT' division at the beginning of 1973, covers activities primarily in the field of television sets.

The West European market for colour television receivers (deliveries to consumers) rose by 40% to more than six million sets. This increase was greater than had generally been expected, since it was originally assumed that the growth would slacken off in the period following the Olympic Games of 1972. In Great Britain more especially, demand rose very fast, followed closely by France. At the end of 1973 over sixteen million colour receivers were in use in Western Europe. This means that at that date 18% of all families in the Western European area within reach of a colour signal had a colour television receiver.

Our sales of colour sets in Western Europe showed favourable growth. In the course of the year we had to contend with delivery problems in a number of countries, since our production and also the supply of components were initially geared to a cautiously estimated market

development. This falls in with our policy to expand production capacity to an extent considered to be justified in order to achieve stable continuity.

Our sales of colour television sets also showed a substantial increase outside Europe, especially in Brazil.

Most of our colour receivers are now fully transistorized, to the benefit of their operating reliability. This is reflected in a relative decrease in the number of sets that have to be repaired. Moreover, full transistorization almost halves the power consumed, from 360 W to 190 W. The operating convenience of some of our sets was further increased with facilities for touch-button programme selection and for ultrasonic remote control.

In spite of the vigorous development of the colour television market, the decline of the market in Western Europe for monochrome sets (deliveries to consumers) was relatively small, from 8.5 to 8 million sets. As a result of the continued trend towards an increase in the market share of small-screen sets

as compared with table models, the decrease was greater in terms of money than in the number of sets sold.

The decrease of our sales of monochrome sets in Western Europe, in line with the market trend, was compensated to a great extent by the increase outside Europe. In the market for small-screen sets we were faced with keen competition from the Far East.

Full transistorization is also increasingly being adopted for our monochrome table models, which improves operating reliability and more than halves the power consumption, from 180 W to 75 W.

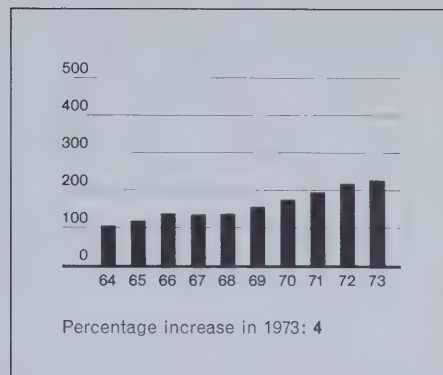
In order to continue producing monochrome table sets economically during the decline of demand in Western Europe, we are pursuing the policy of concentrating our production and are standardizing the chassis as far as possible.



The programmes for testing colour television receivers were again extended in the year under review. Stringent testing has contributed towards the continuous improvement of operating reliability and the simplification of repair work.

Small domestic appliances

Sales in index figures
(basis 1963 = 100)



The sales increase in guilders was adversely affected by the low exchange rate of the U.S. dollar in 1973 compared with that in 1972, owing to the fact that sales in the United States of America constitute a relatively important proportion of the total sales of this product division.

The introduction of our ranges of dryshavers and domestic appliances on the Japanese market was an important event. These products were well received both by the trade and by the public, which gives us confidence in the development of our position in Japan.

In Latin America the Brazilian market is important for us. Our growth there has been considerable, and this success encourages us to expand our activities in other countries in that part of the world.

With their attractive styling and technical perfection, our rotary double-headed and triple-headed shavers continue to occupy a strong position in the market. The vibrator foil shaver brought out to supplement this range is now being

marketed in nearly all countries of Europe.

For the users of hearing aids it is important to experience as little disturbance as possible from extraneous noises during a conversation. In this respect the hearing aids introduced during the year under review, with frontally concentrated sound reception, offer a marked improvement. The introduction of these new appliances has stimulated the growth of sales.

Among the successful articles in the small appliances group are the coffee-makers. We expect that these machines will continue in the years to come to occupy an important position in our range of products. The sales of vacuum cleaners showed a good upward trend, stimulated by the favourable reception of our new "ivory range". We believe that this range has good prospects in the coming years.

In view of the wide variety of domestic purposes for which small electrical appliances might be put on the market, great care is needed in making an appropriate and

economically justified choice of new articles. In general, if there is a sufficiently large market for a specific appliance, the wide technological knowledge available to us and our considerable experience of mass production enable us to produce that appliance economically.

1 Thermostats for coffee-makers and for electric irons. The manufacture of these appliances is highly mechanized.

2 The ranges of Philishaves, beauty care articles and small domestic appliances were introduced on the Japanese market at a meeting of dealers in Tokyo.



Major domestic appliances

In the year under review the activities of the Italian companies Ignis and IRE have been included in the consolidation. Without this consolidation the sales increase would have been 18%. The transfer in 1972 of the division's head office to Italy, where the main production was already concentrated, has brought about better coordination between marketing and production policies.

The overcapacity in the white goods industry, which lasted for years, now seems to be a thing of the past. On the one hand the supply of refrigerators and washing machines reflects the shake-out that has taken place in the industry, and on the other hand consumer demand has increased, especially for deep-freezers and dishwashers.

The market position of our range of products has definitely strengthened. Sales have accordingly developed very favourably. The two-door combined refrigerator/freezer remained much in demand.

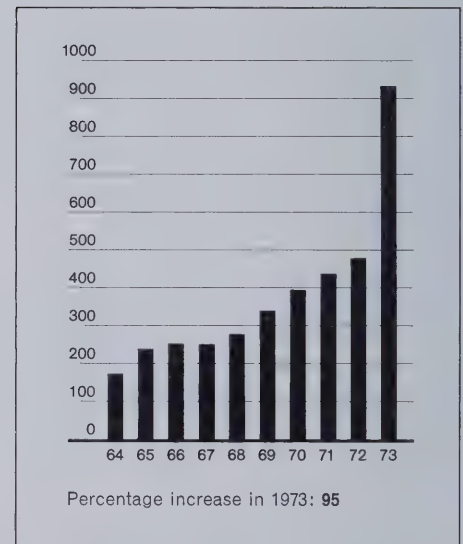
A success in the automatic washing machine sector was the new British-

made top-loading machine, which spin-dries at 1000 revolutions per minute. More and more of the machines we make in France and Italy are being equipped with a drive system incorporating a permanent magnet motor. Since the motor is a d.c. type, the spin-drying revolutions can be controlled electronically, making it an easy matter to set the suitable speed for every type of textile. Other advantages of this system are high operating reliability and a considerable saving in the use of materials.

Since we produce millions of major domestic appliances a year, we are devoting much attention to the logistics of the route from factory to dealers. This is part of the effort we are making to bring about greater efficiency in the system of distributing our products.

To meet a growing consumer demand for completely equipped kitchens, we have started, in close cooperation with the relevant manufacturers, to design a range of machines that can be built into such kitchens. The arrangement of the machines in the kitchen layout

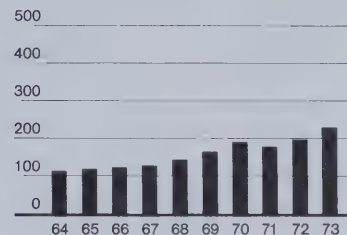
Sales in index figures
(basis 1963 = 100)



receives careful attention with a view to maximum efficiency for the user.



Manufacture of washing machine drums in our Naples factory.



Percentage increase in 1973: 15

The demand for components and materials rose very fast and more than we at first expected. Consequently, in spite of exceptional efforts, the demand could not entirely be met. As a percentage of sales the level of stocks, already low, went down still further.

Colour television tubes had a very important share in the growth of sales. We introduced a new type of picture tube using a quick-heating cathode in the electron gun, which results in the appearance of the picture within five seconds after the television set has been switched on. This system uses less power than other methods employed to speed up the appearance of the picture, and is also safer.

The strong demand for colour television coincided with a rapid changeover to full transistorization, in which the only active components, apart from the picture tube, are semiconductor devices and integrated circuits. A similar fast changeover took place in audio and professional equipment as well. All this required a marked increase in the level of production, towards

which the further automation of the production processes made an important contribution.

In the development of semiconductor devices more emphasis was placed on components with specific applications in telecommunications, measuring, control and monitoring equipment. A titanium-platinum-gold metallization technique was developed which gives components in this category a longer life.

Our leading position in the field of integrated circuits for video and audio equipment was strengthened by the development of a large number of new products. Among the technologies used were LOCMOS and I²L, which are based on our own inventions. Using the LOCMOS technology we also developed a considerable number of new circuits for professional equipment. New, very fast memory circuits in the bipolar current-mode logic technology were put on the market.

In the manufacture of printed wiring for use in professional equipment, a start was made with a new process in which the wiring pattern is applied

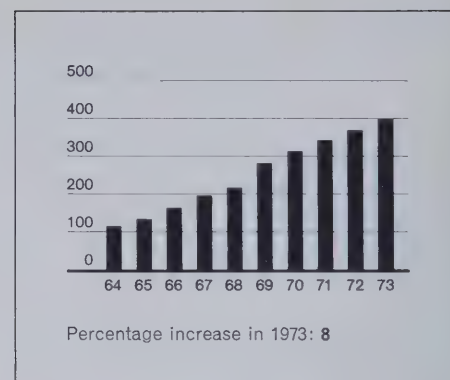
to the substrate by photographic means. This not only greatly improves the quality of the product but represents an important improvement in production efficiency.

Due to the rapid widening of the scope of electronics, many firms now want to know more about electronic engineering and its applications. In this context some contracts were entered into for the transfer of knowledge and the supply of functional units.

Our activity in materials is mainly in the field of industrial ceramics for electronic applications. The production of permanent magnet materials for use in loudspeakers and in d.c. motors was considerably expanded. The production of soft magnetic materials, which are finding increasing applications in a wide variety of electronic equipment, also showed substantial growth.



Activation of cathodes for "Plumbicon" camera tubes with a diameter of 1 inch.



The year 1973 marked the tenth anniversary of Philips introduction of the Compact Cassette system for entertainment recorders. The outstanding features of this system are simplicity of operation and good sound quality. Efforts to make it universally standard have been successful, and it is now the most widely used cassette system in the world. Meanwhile there is a growing demand for cassette recorders with technical refinements and high sound quality. To meet this demand we introduced two stereo cassette recorders which are also suitable for HiFi Compact Cassettes.

Our Colour Video Cassette Recorder, brought out for the consumer market, but which equally has applications in education, instruction, etc., has been selling well. It is increasingly being recognized as a particularly useful and simple means of recording, storing and reproducing audio-visual information.

We are active not only in the field of recording and playback equipment but also in the manufacture and sale of magnetic tape for the storage

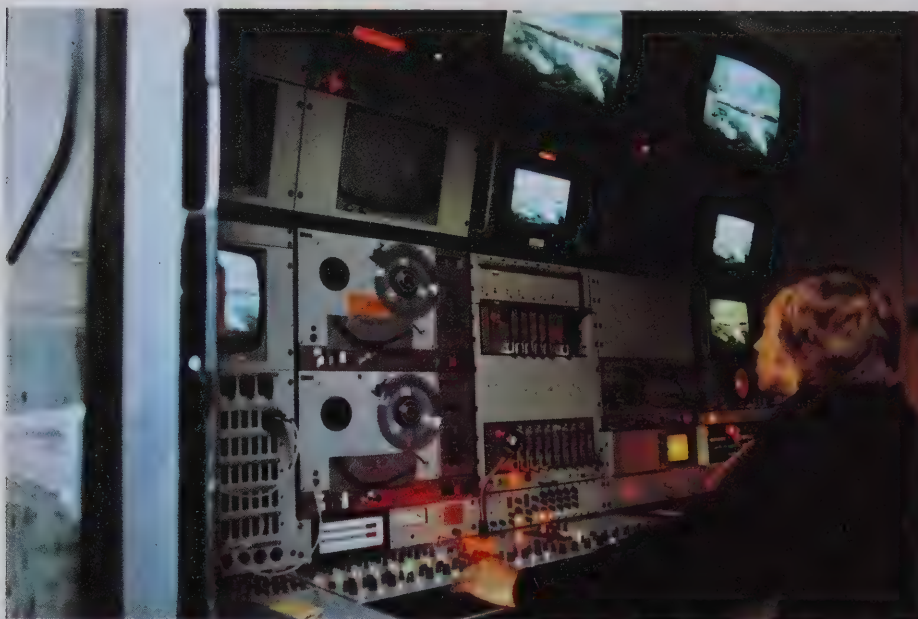
of audio and video information. The resultant interchange benefits the development of both products.

Dictating machines are increasingly being used in government and industry, and this has favourably influenced our sales. We introduced a central system for dictation by telephone, designed for use in large offices and institutions such as hospitals. In this system a dictated text is centrally stored until a typist is available.

Video and audio equipment for communication and information and for surveillance purposes remained in keen demand. Sound amplification equipment, communication and paging systems, in some cases combined with closed-circuit television, were installed in many offices, congress centres, public buildings, department stores, sports stadiums, educational institutions and factories. In the Spanish labour organisation's headquarters in Madrid, for example, we installed a combination of systems comprising an electronic voting system, a simultaneous interpreting system, a sound amplification system

and closed-circuit television.

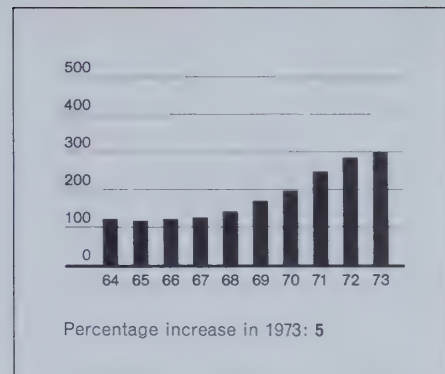
There was a strong increase in the demand for better and more extensive facilities for the reception of television programmes. As a result our sales of television aerials and of equipment for cable television systems, in particular community aerial installations, rose substantially. In various Western European countries orders were received for central aerial installations with more than 10,000 connections each.



Interior of an outside colour-television broadcast van. The van was supplied to a television production company in Scandinavia, which copies the programmes on video cassette tape.

Telecommunications and defence systems

Sales in index figures
(basis 1963 = 100)



The growth of the order book was entirely satisfactory.

The first computer-controlled PRX telephone exchange was officially put into use in February by the director general of the Netherlands General Post Office. Orders for this ultramodern system were received in the Netherlands, in some South American countries and for the Island of Jersey. As more of these "stored programme control" exchanges come into operation in a telephone network it will be possible, due to the greater flexibility of this system, to offer a much wider range of facilities to subscribers. Among the advantages for a telephone company are that the required accommodation space is halved and the running costs are exceptionally low.

For use in hotels and motels a series of private telephone exchanges was introduced, capable of providing every facility that may be needed. Orders were received from many countries, including Belgium, Indonesia, Italy, Singapore, Spain, Taiwan and the United States of America.

Further orders were received for DS 714 computer systems for message traffic, confirming our success in this field. Six systems will be employed in public telegraph and telex networks in the Far East and South America, and a seventh in New Delhi as part of the worldwide communications network of the World Meteorological Organization.

A contract was concluded with the Republic of Zaïre for the delivery and installation of communications

and navigation equipment for an air traffic control network.

Our French associates received orders for microwave links from various countries. They also obtained a large number of orders for data modems, in which field they are among the leading manufacturers.

The British Post Office Corporation is preparing the first cable network to incorporate the 60 MHz coaxial transmission system, developed by Pye TMC in cooperation with Philips' Telecommunicatie Industrie in Hilversum. Other countries are also showing keen interest in this system, which has a capacity of 10,800 telephone channels per coaxial pair; orders have been obtained in Sweden and Finland.

The TV21d transmission system developed by TeKaDe-FGF, with which television programmes can be transferred by coaxial cable from studio to transmitter, is already in use in five countries; the system is now being installed in Switzerland and Poland.

Fire-control systems for ships were

among the equipment ordered by the navies of several countries. Receiving equipment for ships will be delivered to the Dutch Navy. The Netherlands Army placed a substantial order for the supply of integrated radar-based fire-control systems for anti-aircraft tanks, and also for delta modulation equipment to be used in its microwave communication network.

Equipment for instrument landing systems being tested at Philips Electronic Industries Ltd., Canada. Sixty such systems have already been delivered. Systems of this type are also part of the airline project we shall be carrying out in Zaïre.





Sales rose by 17%.

An event of outstanding significance for this product division was the conclusion between CII, Siemens and Philips of the agreement to cooperate in the field of electronic data processing in the Unidata Group. This event may also be regarded as important in the broader context of European integration.

Pursuant to this agreement a process has been initiated in which the three independently evolved activities will be harmonized: development and production will be coordinated and the selling organizations in each country will successively be combined. The first of a future range of Unidata computer systems, the Unidata 7.720 system, has meanwhile been announced.

The sales of computer systems of the P 1000 family were according to plan. At the end of 1973 a total of 150 such systems had been installed and 44 were on order. The necessary measures were taken to provide for maintenance and service with a view to continuity in the use of these computers. Important projects were completed or undertaken for the central government and local authorities, notably in the Netherlands. Major events within Philips included the putting into operation of two P 1400 systems for Philips Nederland B.V. and a materials management information system (MAMIS) for the Audio and Video product divisions. This latter system, which uses P 1000 computers, can do much to improve the management of stocks and will be introduced in many places within Philips.

Important agreements were concluded for projects which will comprise computers of various classes as well as different types of terminals. Substantial orders have been obtained in a number of countries for the bank terminal system PTS 6000 which we have developed.

The world market for office computers showed strong growth. We succeeded in improving our position in this market in spite of keen competition. Due to the success of the P 350 models we are now the biggest European manufacturer of office computers using magnetic ledger cards. At the end of 1973 the number of Philips office computers installed had risen to 17,000.

Largely because of the growing desire of computer users for greater efficiency in data entry, the market for this type of equipment is very much in a state of flux. Apart from the tape encoder system which we produce for this purpose, we have also introduced equipment for data entry from multiple locations, called the X 1150 key-to-disc system.

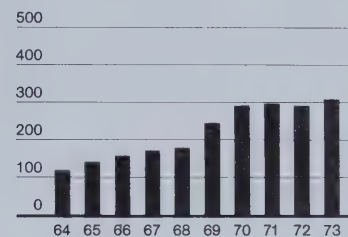
Partly as a result of this system our order book in this sector has grown substantially.

With the need for further rationalization in industry, minicomputers are being increasingly used for industrial automation, partly because they are becoming cheaper. Our sales doubled in the past year. We delivered a total of some hundreds of units of the P 800 family together with associated peripheral equipment to O.E.M. customers (original equipment manufacturers) and within Philips to other product divisions for incorporation in systems delivered by them.



1 The first Unidata computer system, model 7.720.

2 One of the PTS 6000 bank terminals installed in the Svenska Handelsbanken at Norrköping.



Percentage increase in 1973: 6

As a result of the recovery of the market for capital goods, sales in the year under review showed an upturn after the slight decrease in 1972. The sales increase was recorded more especially in the analytical and industrial instruments sector.

Analytical instruments, which were originally developed mainly for scientific applications, are increasingly being used in industry. This trend is also reflected in our activity. New measuring instruments were developed for the mining industry which permit continuous measurement of the mineral contents in the ore during the extraction process. These instruments were developed in Australia, where they received the highest "Prince Philip Award" in recognition of the merits of the industrial design.

Pye Unicam had much success with a new range of instruments for analysing the composition of solids, gases and liquids, comprising an atomic absorption spectrophotometer, various other spectrophotometers and new liquid and gas chromatographs. Pye Unicam specializes in instruments of this type, designed particularly for applications in the chemical industry and in the life sciences.

The sales of transmission electron microscopes made good progress. Substantial orders were received for the scanning electron microscope introduced in 1972, and for the transmission microscope equipped with a scanning unit.

The sales of instruments for monitoring water and air pollution showed powerful growth. Major projects we were commissioned to

carry out include air monitoring networks in Austria, Italy, Mexico and the United States of America.

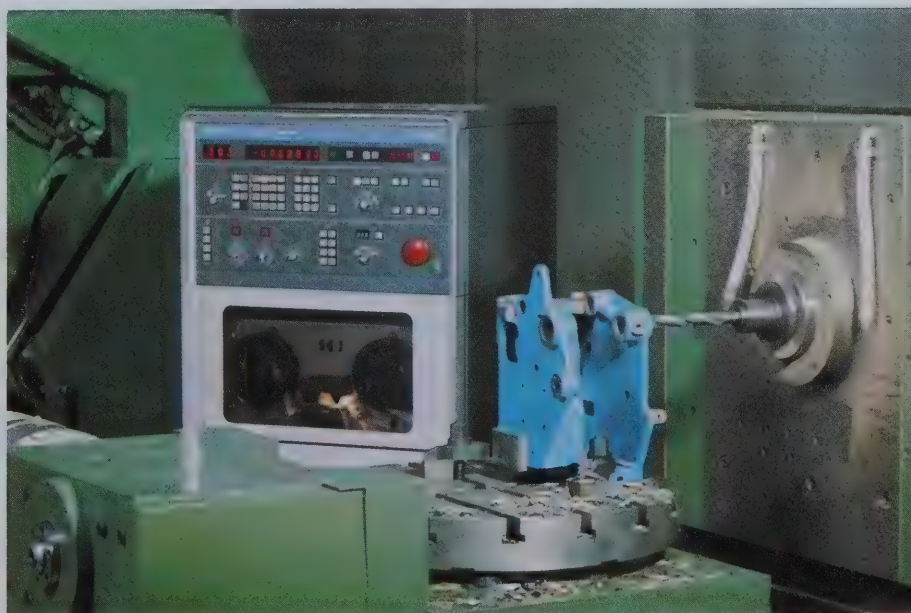
The electronic measuring instruments group is increasingly supplying automated equipment for measurements in factories and laboratories. Extensions to the programme include digital measuring instruments, recorders and the associated switchgear. A new storage oscilloscope for analysing fast transients was brought out.

For industrial instrumentation, systems were built for the electronic weighing of moving road transport vehicles and railway wagons during shunting.

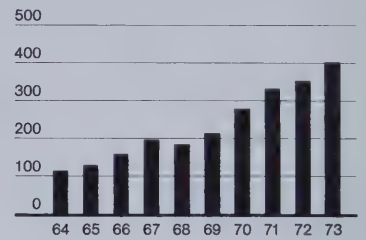
New instruments for the numerical control of machine tools were put on the market; they are outstanding for the facilities they offer for the automation of metal-cutting processes in the machine shop, including the possibility of controlling machines fully automatically with a computer.

In the welding sector we acquired a majority interest in the Italian firm Elettrotermochimica S.p.A. A long-

term technical assistance and agency contract was entered into with P.T. Krama Yudha at Djakarta for the manufacture and sale of welding products in Indonesia. Pursuant to a feasibility study, it was decided to continue the existing collaboration in the welding field with l'Air Liquide on the same basis.



Numerically controlled machine tools carry out all machining operations fully automatically.



Percentage increase in 1973: 14

In many parts of the world health care is confronted with problems of rising costs and a shortage of personnel. In view of this situation, great importance is attached to raising the efficiency of examination and treatment procedures, a major aid in this connection being the application of automated equipment. The development of such equipment calls for systematic analysis of the procedures, and close attention is devoted to those who have to operate it. A number of the systems developed by us aroused considerable interest when exhibited at the XIII International Congress of Radiology held in Madrid. This equipment is highly advanced both in technology and design.

An automatic film handling system for application in radiodiagnostics was introduced, which eliminates a number of manipulations hitherto necessary in radiographic procedure; considerable time-saving has been effected.

In diagnosis with the aid of radioactive isotopes, which is sometimes used to supplement X-ray diagnosis or even as a substitute for it, it is

important to obtain information on processes occurring within the body in addition to static images of organs. To provide facilities not only for visualizing the action of organs but also for demonstrating their function the programme has been extended with a new gamma-camera to which is coupled an automated processing and display system; this innovation enables the doctor to make a diagnosis more quickly and on the basis of sounder information.

Our range of equipment for radiation therapy with ionizing rays now forms a complete system ranging from instrumentation for localizing lesions to that for the irradiation process itself. A treatment planning system has been developed in order to eliminate the necessity for time-consuming dose calculations and also to exclude errors.

During the year under review many new hospitals were equipped with our modular patient monitoring system. New modules and equipment have been added to the programme. The Analog Video Converter was introduced; this converts an analog signal into a video signal which can

be displayed on a black-and-white or colour monitor. A new series of lung ventilators was developed, suitable for patient monitoring and for use in the operating theatre.

1 The "Diagnost" 120, a remote controlled system for universal X-ray examinations; it can be combined with an automatic film handling system, thus eliminating the use of cassettes.

2 Modular patient monitoring system in the post-operative intensive care department of a hospital in Stockholm.



The growth of sales, expressed in guilders, was considerably affected by the low exchange rate of the U.S. dollar in 1973 compared with that in 1972; as may be recalled, sales in the United States of America represent more than half the total turnover of this product division.

The sales of crop protection products developed favourably. This was mainly due to the success our French organization had with a new fungicide to combat mildew in grain. The herbicide "Casoron" has been in large-scale production since the beginning of 1973.

In countries where large agricultural areas have to be protected at short notice against plagues and where water is scarce, there is a need for insecticides in a suitable liquid form. This need is met by the SULV (special ultra-low volume) preparation, because it can be used without the addition of water. Good progress was made with the development of a larvicide from the group of new insecticides mentioned in last year's report, which are not detrimental to the environment.

Sales in the biochemical sector progressed satisfactorily and were higher than expected.

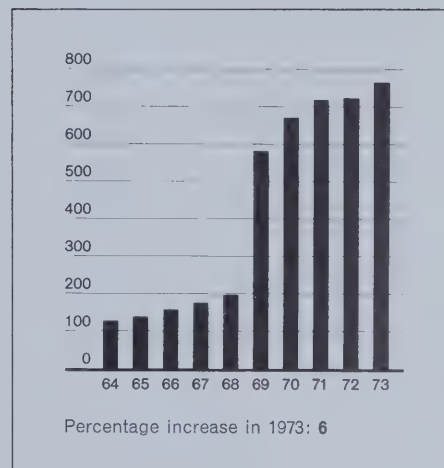
We are vigorously pursuing our research and development in the veterinary sector with the object of increasing the share of our own products in the range sold.

In the human health sector all products contributed to the growth of sales, including the new specialties for the prevention of threatened miscarriage and for the treatment of Menière's syndrome (dizziness, buzzing in the ears, deafness).

Thanks to close cooperation with the World Health Organization, we were able to incorporate in our anti-influenza vaccine "Influvac" the most recent virus strain, isolated in a late stage.

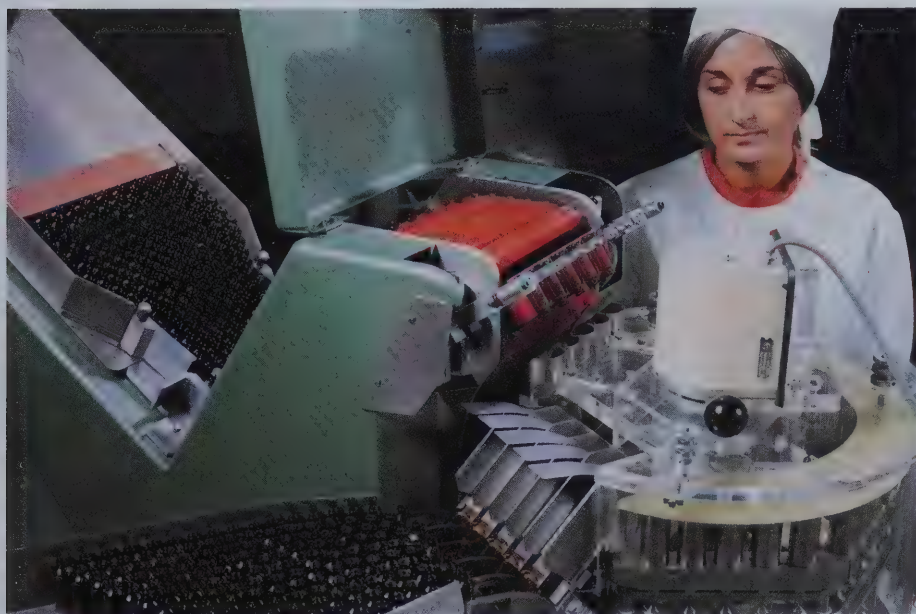
In view of the good prospects for lactulose, it was decided to expand substantially the factory producing this product, which is used in the treatment of severe liver disorders and extreme constipation. In the Netherlands we registered a new product for the treatment of potentially fatal burns.

Sales in index figures
(basis 1963 = 100)

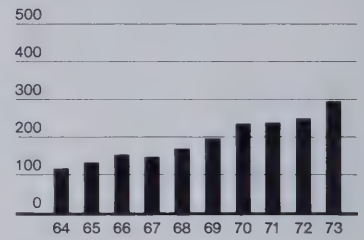


In the isotopes sector a number of new products for medical diagnosis were developed that could considerably stimulate the growth of this group; they include a product for the examination of the pancreas and one for determining the vitamin B12 content in the blood.

The joint studies, mentioned last year, with The Dow Chemical Company led to the conclusion that there are insufficient elements present for a participation by Dow in Philips-Duphar.



Machine that automatically fills flacons with injection fluids in our new pharmaceutical factory at Alcalá de Henares (Spain).



Percentage increase in 1973: 19

The capacity of our corrugated cardboard factory in Eindhoven and of those in which we participate was favourably utilized.

Owing to the paper shortage the price of raw materials for corrugated cardboard rose steeply, but the selling prices could not be raised proportionately. There is, however, a noticeable growth of interest in corrugated cardboard, partly because of the relatively favourable environmental aspects of this type of packaging.

The wire and wire-products group accounts for an important part of this division's sales. Activities in this field developed favourably. The production capacity for connection cords with integral plugs was substantially increased to meet the great demand for this product.

In a number of countries we have for some years now been successfully supplying the do-it-yourself market with soldering irons and bits.

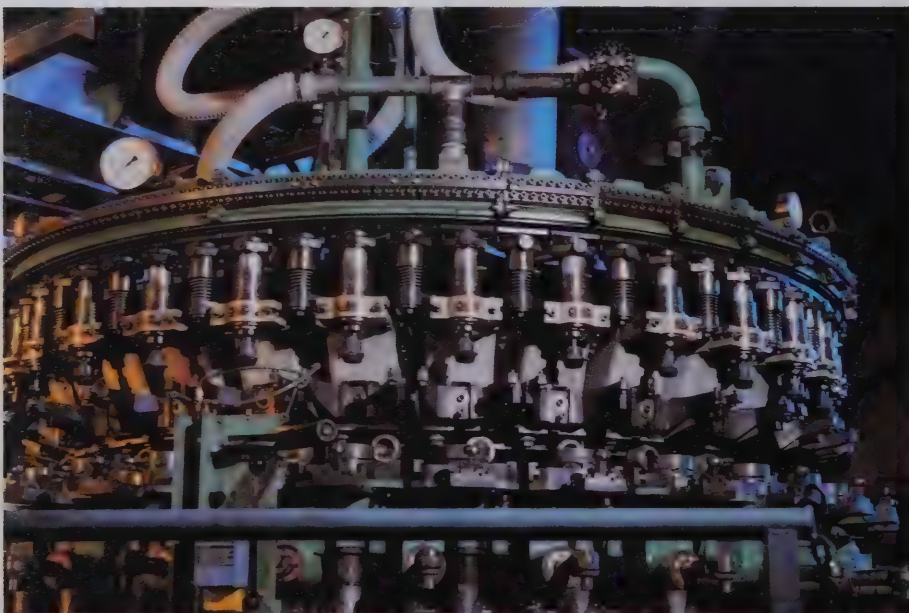
Towards the end of the year under review we put on the market a micromanipulator developed by the Research Laboratories, which

enables the user of a microscope to shift the specimen over a very small distance.

The capacity of our glass factories was well utilized. The production of glass for monochrome picture tubes in the new factory at Winschoten (Netherlands) got well under way. Labour-saving working methods introduced in the manufacture of glass also brought improvements in working conditions, an example being a new polishing line for television screens.

Continuous attention is being paid to the protection of the environment. In this context good results were achieved with methods of reducing the noise level as well as the consumption of water during the manufacture of glass. As a result of a process modification, the pollution of waste water by hydrofluoric acid in the finishing of television glass products has now been eliminated.

- 1 The "karibo" bulb-blowing machine for incandescent lamp bulbs.
- 2 Packaging for a heating lamp. Packaging of this type was awarded the "Gouden Noot" and the "Eurostar". Being obliquely positioned in its wrapping, the lamp is not subjected to pressure or shocks during the transport of packages in a crate.



Polygram

Baarn and Hamburg

(Polygram is a joint enterprise of N.V. Philips' Gloeilampenfabrieken, Eindhoven, and Siemens AG, Munich, each holding a 50% interest)

Sales in 1973, expressed in guilders, rose by 12%. The activities of the Polygram group in the field of sound carriers (gramophone records, musicassettes and eight-track cartridges) which are undertaken by the operating companies Phonogram International (Baarn) and Polydor International (Hamburg) with their subsidiary companies, again accounted for the largest share in total sales. The position of the group in the United States of America in this sector was strengthened by the acquisition of all the shares of the distributing company U.D.C. Inc.

In the popular repertoire field an important contribution to Phonogram International's sales came from the successes of Vicky Leandros, Mouth & MacNeal, Nana Mouskouri, Demis Roussos, Mort Shuman, the Peters and Lee duo, Paul Mauriat, Black Sabbath, Rod Stewart, Ekseption, Jerry Lee Lewis, and Lobo.

Important contributions to the popular music sales of Polydor International were made by the hits of James Last, James Brown, The Osmonds, Slade, Sammy Davis Jr., The Bee Gees, Georges Moustaki, Marie Laforet, Focus, Gary Glitter, David Cassidy, and Dawn.

A highlight in the classical repertoire of Phonogram International was the release of the live recording of the complete "Der Ring des Nibelungen" by Richard Wagner, made with Karl Böhm at Bayreuth; this was the last of Wieland Wagner's now famous "Ring" productions. Phonogram's classical catalogue was further

enriched with the world première recording of Verdi's "Attila".

Lehár's "Die Lustige Witwe" with the Berliner Philharmoniker conducted by Herbert von Karajan, and Carl Orff's latest work "De temporum fine comoedia" with the same conductor, were two important additions to the classical repertoire of Polydor International. To mark the 75th anniversary of Deutsche Grammophon this company commissioned a jubilee composition from Mauricio Kagel: the work "1898" had its première in September during a festival concert at Hamburg and a recording was also released.

The music publishers Chappell and Intersong, which belong to Polygram, made good progress. Their activity is increasingly proving a stimulus for the other activities of the group.

Activities in the television film sector are the responsibility of the Polytel group. The co-production of opera films made with various European broadcasting companies in 1972 proved to meet a demand. Special mention should be made of the

projects "La Cenerentola" and "La Traviata", which included performances by Mirella Freni and Bonisolli.

The prospects for audio-visual products are considered to be favourable. In addition to the existing video cassette equipment it is likely that playback equipment for video long-play (VLP) records will appear on the market in the not too distant future. With this in view, preparations are in hand for audio-visual programmes as well as for the manufacture of high-quality video records. The operating companies Polytel and Polymedia are drawing up a programme catalogue.

Phonogram International released the complete symphonic works of Anton Bruckner in a recording made with the Concertgebouw Orchestra, Amsterdam, conducted by Bernard Haitink.



Auditors' Report

We have examined the Accounts for the year 1973 of N.V. Philips' Gloeilampenfabrieken and of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken. With respect to certain subsidiaries and associated companies, mainly outside Europe, we have also made use of the reports of other auditors.

In our opinion, the accompanying Accounts of N.V. Philips' Gloeilampenfabrieken and of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken give a true and fair view of these companies' state of affairs as at 31 December 1973 and of their results for the year 1973.

We have also examined the Combined Statements of Financial Position and of Results, which combine the consolidated accounts for the year 1973 of N.V. Philips' Gloeilampenfabrieken and of the United States Philips Trust. In conducting our examination we have also made use of the other auditors' reports referred to above.

As regards the consolidated accounts of the United States Philips Trust we have relied on the report, dated 21 February 1974, of Messrs. Hurdman and Cranstoun, Certified Public Accountants, New York.

In our opinion, based on our examination and on the aforementioned report of Messrs. Hurdman and Cranstoun, the accompanying Combined Statements give a true and fair view of the combined state of affairs as at 31 December 1973 and of the combined results for the year 1973.

Eindhoven, 12 March 1974.

KLYNVELD KRAAYENHOF & CO.

Combined Statement of Results

	1973	1972
Sales	22,562.8	19,924.5
<i>Costs and expenses:</i>		
Cost of sales	-15,484.8	-13,752.2
Selling and general expenses	-4,481.2	-4,197.4
	<u>-19,966.0</u>	<u>-17,949.6</u>
Trading profit	2,596.8	1,974.9
<i>Other income and charges:</i>		
Interest paid	-520.7	-537.6
Interest received	120.7	99.3
	<u>-400.0</u>	<u>-438.3</u>
Extraordinary income	88.1	99.9
Extraordinary charges	-356.0	-172.6
	<u>-667.9</u>	<u>-511.0</u>
Profit before tax	1,928.9	1,463.9
Tax on profit	-962.9	-719.3
Profit after tax	966.0	744.6
Share in net profit of non-consolidated companies	61.4	62.7
Group profit	1,027.4	807.3
Minority interests	-128.3	-90.1
Net profit	899.1	717.2

Amounts in millions of guilders

Combined Statement of Financial Position

	1973		1972	
Property, plant and equipment				
Replacement value	15,758.6		14,105.8	
Depreciation	<u>-7,401.1</u>	8,357.5	<u>-6,518.5</u>	7,587.3
Intangible assets		—		—
Investments in non-consolidated subsidiaries and associated companies		609.8		578.2
Sundry non-current assets		690.5		622.4
Stocks				
Factory stocks	3,591.7		2,905.8	
Advance payments by customers	<u>-403.9</u>		<u>-421.3</u>	
	3,187.8		2,484.5	
Commercial stocks	<u>3,242.5</u>	6,430.3	<u>2,938.7</u>	5,423.2
Accounts receivable				
Trade debtors	6,415.7		5,737.8	
Discounted bills	<u>-403.8</u>		<u>-392.6</u>	
	6,011.9		5,345.2	
Other accounts receivable	490.8		445.0	
Prepaid expenses	<u>349.2</u>	6,851.9	<u>316.2</u>	6,106.4
Liquid assets				
Marketable securities	223.1		195.2	
Cash at bank and in hand	<u>1,024.0</u>	1,247.1	<u>1,618.4</u>	1,813.6
		24,187.1		22,131.1

Amounts in millions of guilders

	1973		1972	
Shareholders' equity interest				
Ordinary share capital	1,636.3		1,274.1	
Share premium account	280.1		619.3	
Retained profit	4,520.2		3,821.0	
Revaluation surplus	<u>2,013.9</u>	8,450.5	<u>1,715.8</u>	7,430.2
Minority interests		1,022.6		907.0
Sundry provisions				
Long-term provisions	2,554.7		2,092.7	
Short-term provisions	<u>899.1</u>	3,453.8	<u>744.3</u>	2,837.0
Long-term liabilities				
Convertible debenture loans	742.4		773.1	
Other debenture loans	548.1		611.7	
Other long-term liabilities	<u>2,460.9</u>	3,751.4	<u>2,722.1</u>	4,106.9
Current liabilities				
Banks	1,886.8		2,256.5	
Accounts payable	3,250.8		2,716.9	
Tax on profit	994.8		638.8	
Accrued expenses	<u>1,127.4</u>	7,259.8	<u>1,043.6</u>	6,655.8
Profit available for distribution (see page 45)	347.2		270.6	
Interim dividend made payable in December	<u>-98.2</u>	<u>249.0</u>	<u>-76.4</u>	<u>194.2</u>
		24,187.1		22,131.1

Explanatory Notes to the Combined Statements

These statements combine the consolidated data of N.V. Philips' Gloeilampenfabrieken and those of the United States Philips Trust.

Principles of valuation

Property, plant and equipment

These assets and their depreciation are valued on the basis of replacement value. Changes in the replacement value are credited or charged to Revaluation Surplus.

Intangible assets

Intangible assets are shown in the balance sheet at no value.

Investments in non-consolidated subsidiaries and associated companies

Non-consolidated investments are valued at their net tangible asset value, determined in accordance with the principles adopted in these annual accounts.

Sundry non-current assets

These assets are valued at purchase price or at estimated realizable value, whichever is the lower.

Stocks

Stocks are valued at replacement value or at estimated realizable value, whichever is the lower. Changes in replacement value are credited or charged to Revaluation Surplus. The provision for the risk of obsolescence is deducted from the total figure for stocks. Profits arising from transactions within the Philips organization are eliminated.

Accounts receivable

Accounts receivable are shown at nominal value, less the provision for the risk of bad debts.

Liquid assets

Securities are valued at purchase price or at their listed stock exchange price at the end of the financial year, whichever is the lower. Shares in N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken and debentures of N.V. Philips' Gloeilampenfabrieken and of their associated companies are included at par.

Minority interests

Minority interests in consolidated subsidiaries are valued on the basis of net tangible asset value, determined in accordance with the principles adopted in these annual accounts.

Sundry provisions

These provisions do not relate to specific assets; they are formed to meet commitments and risks connected with the course of business. Pension provisions are included under this heading at present value.

Long-term and current liabilities

These liabilities are taken up at nominal value.

Replacement value

The replacement value is determined on the basis of the price trends of the various assets, making use inter alia of indices. Transfers to Revaluation Surplus pursuant to changes in the replacement value are made after deduction of latent tax liabilities.

Foreign currencies

In the Combined Statement of Financial Position amounts in foreign currency are converted into guilders at the official exchange rates applicable on the balance sheet date, unless circumstances, as, for instance, the trend of the purchasing power of the currency concerned, call for the adoption of a lower rate.

Exchange differences due to the conversion into guilders of property, plant and equipment and stocks are offset against Revaluation Surplus in the relevant country.

Exchange differences due to the conversion in guilders of nominal assets and liabilities are credited or charged to Profit and Loss Account.

In the Combined Statement of Results, sales and income in foreign currencies are converted at the rates applicable in the relevant periods.

The balance of the relevant profit and loss account is converted at the end of the year at the rates applied in the Combined Statement of Financial Position. The resultant difference is credited or charged to Profit and Loss Account.

Principles of calculating profit

- The sales figure represents the net proceeds from goods and services supplied to third parties.
- Depreciation of property, plant and equipment is calculated on the basis of fixed percentages of the replacement value.
- Consumption of raw materials and the other elements in the cost of sales are also calculated on the basis of replacement value.
- Provisions for risks inherent in operations are built up in proportion to the volume of business.
- Expenditure on research, development, patents, licences, copyrights and concessions is charged in the current year to Profit and Loss Account. Net amounts paid in excess of the net tangible asset value for the acquisition of participations in any year are similarly charged in that year to Profit and Loss Account.
- For taxes on profit provisions are made on the basis of the profit figure determined in accordance with our principles of valuation, which implies that latent taxes are taken into account. In so far as the cost of sales differs from historical cost owing to the use of the replacement value, the tax payable on that difference is charged to the provision made for latent taxes at the time of revaluation.

Criteria for consolidation of subsidiaries

Companies in which N.V. Philips' Gloeilampenfabrieken or the United States Philips Trust hold, directly or indirectly, more than half of the issued share capital are included in the Combined Statement of Financial Position; the assets and liabilities are then included in full, and minority interests are shown separately in the Statement. A few companies in which the holding is 50% are also consolidated; the assets and liabilities in these cases are included in that proportion. Similar considerations apply to the Combined Statement of Results.

United States Philips Trust

To the beneficiaries of the United States Philips Trust

The consolidated net income of the United States Philips Trust for the year 1973 amounted to \$ 24,762,379, as compared with \$ 17,852,715 in 1972. These results include the Trust's share of the profits of North American Philips Corporation (N.A.P.C.), the main operating company controlled by the Trust.

On October 31, 1973 P.E.P.I. Inc., a majority-owned subsidiary of N.A.P.C. was merged into N.A.P.C. by issuance of 1,118,136 N.A.P.C. shares to the public shareholders of P.E.P.I. Inc. On December 31, 1973 Dialco Corporation, also a majority-owned subsidiary of N.A.P.C. was merged into Amperex Electronic Corporation, a wholly-owned subsidiary of N.A.P.C., by issuance of 136,555 N.A.P.C. shares to the public shareholders of Dialco Corporation. These transactions of N.A.P.C. resulted in a reduction of the Trust's net assets of \$ 6,099,621.

As a consequence of these mergers — and other transactions of minor importance —, as well as by the acquisition of 446,400 shares of N.A.P.C. by the United States Philips Trust, the Trust owned 61.3% out of a total of 10,248,278 shares of common stock of N.A.P.C. issued and outstanding as of December 31, 1973, as against 65.9% of 8,845,627 shares outstanding on December 31, 1972.

Net assets of the Trust, as of December 31, 1973, amounted to \$ 217,732,456 based on underlying book values, as against \$ 199,069,698 as of December 31, 1972.

March 12, 1974

*Respectfully submitted,
Governing Committee of the United States Philips Trust
under Indenture dated December 19, 1956,*

Pieter van den Berg, Chairman.

* * *

The assets belonging to the capital of the United States Philips Trust (referred to below as the Trust) are controlled in accordance with the directives of the Governing Committee of the Trust. The holders of shares in N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken (referred to below as Gem. Bezit) are, as such, beneficiaries of the Trust; the holders of the shares in Philips that are not held by Gem. Bezit are likewise beneficiaries of the Trust. In assessing the value of their holding, shareholders should therefore take into consideration not only their interest as such but also their interest as beneficiaries under the Trust. For this purpose they may consult the following Combined Statements, which show the total interest of shareholders as such and as beneficiaries under the Trust. When reading these statements it should be noted that the Trust does not apply the replacement value principle in calculating net assets and results.

The net assets of the Trust comprise intangible assets and differences in valuation, arising from the acquisition of participations, which, in accordance with our principles of valuation and our principles of calculating profit, are deducted from or added to the net asset value of the Trust in the Combined Statements. At 31 December 1973 this resulted on balance in an increase of U.S. \$ 1,173,404 in the net asset value of the Trust; at 31 December 1972 there was a net decrease of U.S. \$ 8,137,747. Incorporation of this increase by way of the Combined Statement of Results brought the net asset value of the Trust at 31 December 1973 in the Combined Statement of Financial Position to U.S. \$ 218,905,860 (U.S. \$ 190,931,951 at 31 December 1972).

After conversion into guilders at f 2.80 per U.S. dollar, the increase of U.S. \$ 27,973,909 in the net asset value of the Trust corresponds to f 78.4 million. As a consequence of the fall in the exchange rate of the U.S. dollar in 1973 (from f 3.24 to f 2.80 at the end of December) the net asset value of the Trust, converted into guilders, showed a decrease of f 84.0 million, which decrease is likewise included in the Consolidated Statement of Results.

Converted into guilders the net asset value of the Trust in the Combined Statements therefore shows a net decrease of f 5.6 million.

Explanatory notes to assets, liabilities and results (amounts in millions of guilders)

<i>Property, plant and equipment</i>	replacement value	depreciation	book value
Land and buildings	6,327.7	2,071.3	4,256.4
Machinery and equipment	6,799.0	4,188.0	2,611.0
Equipment leased out	455.7	173.9	281.8
Dwellings and land	325.5	85.3	240.2
Vacant land	197.9	—	197.9
Balance at 31 December 1972	14,105.8	6,518.5	7,587.3
Investments in:			
Land and buildings		216.7	
Machinery and equipment		799.5	
Equipment leased out		170.4	
Dwellings and land		24.1	
Vacant land		11.8	
Decrease due to assets sold and withdrawn from use		-217.9	
Net acquisitions			1,004.6
Depreciation on:			
Land and buildings		-183.9	
Machinery and equipment		-659.1	
Equipment leased out		-81.0	
Dwellings and land		-6.6	-930.6
Revaluation			293.8
Net changes due to new and discontinued consolidations			402.4
Total changes in 1973			770.2

	replacement value	depreciation	book value
Land and buildings	7,181.3	2,479.0	4,702.3
Machinery and equipment	7,515.8	4,613.4	2,902.4
Equipment leased out	546.2	219.4	326.8
Dwellings and land	301.1	89.3	211.8
Vacant land	214.2	—	214.2
Balance at 31 December 1973	15,758.6	7,401.1	8,357.5

Investments in non-consolidated subsidiaries and associated companies

This item includes loans to these companies totalling f 29.8 m (f 39.0 m last year); the interest received on this amount is comprised in the Combined Statement of Results under "Other income and charges". Other amounts due from these companies are included under "Trade debtors".

Balance at 31 December 1972	578.2
Changes:	
Included in the consolidation as at 1 January 1973	-57.4
Investments	64.2
Changes in loans	-4.8
Share in the net profit of 1973	61.4
Dividends received	-27.9
Revaluation	-2.3
Others	-1.6
Balance at 31 December 1973	609.8

<i>Sundry non-current assets</i>	1973	1972
Loans secured by mortgage	213.3	234.3
Other loans and sundry non-current receivables	244.2	181.1
Securities not officially quoted	28.3	28.7
Sundry assets not immediately realizable	204.7	178.3
	690.5	622.4

The securities not officially quoted include securities with a value of f 15.0 m (f 17.7 m last year) which are not freely disposable.

Stocks

Stocks were increased in 1973 by f 123.0 m to the credit of Revaluation Surplus (f 32.9 m last year).

Accounts receivable

- Trade debtors

This item includes amounts owing under instalment sales contracts totalling f 684.1 m (f 658.5 m last year) and amounts due from non-consolidated subsidiaries and associated companies totalling f 237.2 m (f 208.6 m last year).

Liquid assets

- Marketable securities

This item includes f 5.3 m (f 4.0 m last year) in ordinary shares of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken. The total holding includes securities with a value of f 27.2 m (f 39.3 m last year) which are not freely disposable.

The market value of the total holding of securities is f 232.4 m (f 223.8 m last year).

- Cash at bank and in hand

This item includes an amount of f 77.8 m (f 194.1 m last year) repayable at not less than three months' notice.

Shareholders' equity interest

Balance at 31 December 1972

Ordinary share capital (issued and fully paid up)		1,274.1
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Share premium account		619.3
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Retained profit N.V. Philips	3,202.5	
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Beneficiaries' interest in U.S. Philips Trust	618.5	
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Retained profit		3,821.0
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Revaluation surplus		1,715.8
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Shareholders' equity interest at 31 December 1972		7,430.2
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Changes:

Share premium conversion into ordinary share capital:

Ordinary shares issued	326.8	
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Decrease of Share premium account	-326.8	—
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Conversion of convertible debentures:

Ordinary shares issued	4.7	
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Added to Share premium account	18.3	23.0
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Distribution in connection with final dividend 1972, charged to Share premium account:

Ordinary shares issued	30.7	
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Decrease of Share premium account	-30.7	
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Added to Retained profit	147.2	147.2
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Transfer to Retained profit from net profit 1973 of N.V. Philips

	557.6	
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Decrease in net asset value of U.S. Philips Trust	-5.6	552.0
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Increase in Revaluation surplus after deduction of latent tax liability totalling f 280.1 m		298.1
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Balance at 31 December 1973		8,450.5
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Ordinary share capital (issued and fully paid up)		1,636.3
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Share premium account		280.1*
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Retained profit N.V. Philips	3,907.3**	
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Beneficiaries' interest in U.S. Philips Trust	612.9	
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Retained profit		4,520.2
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Revaluation surplus		2,013.9
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Total shareholders' equity interest at 31 December 1973		8,450.5
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* Share premium account includes an amount of f 101.0 m, free from Netherlands tax (f 440.1 m last year).

** This includes an amount of f 3,528.7 m pursuant to article 42, para 4, of the Articles of Association (last year f 2,971.1 m) and f 378.6 m in respect of final dividends not taken up in cash (last year f 231.4 m).

Sundry provisions

	1973	1972
Long-term provisions		
Provisions for latent tax liabilities	937.2	713.7
Provisions for pensions	917.1	752.0
Provisions for statutory payments to laid-off personnel	159.7	150.4
Others	540.7	476.6
	<u>2,554.7</u>	<u>2,092.7</u>

Long-term liabilities

	conversion price	amount outstanding	conversion period
• Convertible debenture loans			
4½% U.S. dollar debenture loan N.V. Philips' Gloeilampenfabrieken	f 44.30	338.2*	from 1 Jan. 1969 to 30 June 1983
6½% Debenture loan N.V. Philips' Gloeilampenfabrieken	f 53.20	172.9	from 1 Jan. 1971 to 31 Dec. 1974
5% Personnel debentures N.V. Philips' Gloeilampenfabrieken issued in 1968	f 45.20	2.5	from 1 Jan. 1969 to 31 Dec. 1978
issued in 1969	f 49.30	2.8	from 1 Jan. 1970 to 31 Dec. 1979
6% Personnel debentures N.V. Philips' Gloeilampenfabrieken issued in 1970	f 48.—	2.8	from 1 Jan. 1971 to 31 Dec. 1980
issued in 1971	f 26.—	4.6	from 1 Jan. 1972 to 31 Dec. 1981
issued in 1972	f 43.60	5.5	from 1 Jan. 1973 to 31 Dec. 1982
issued in 1973	f 39.—	8.8	from 1 Jan. 1974 to 31 Dec. 1983
5½% Sterling debenture loan Philips Finance Ltd., England	per £ 50.— 7,566 shares	104.0	from 1 Jan. 1974 to 31 Dec. 1994
6% DM personnel debentures Allgemeine Deutsche Philips Industrie GmbH, Germany issued in 1970	f 48.—	11.9	from 1 Jan. 1971 to 31 Dec. 1980
issued in 1971	f 26.—	10.5	from 1 Jan. 1972 to 31 Dec. 1981
issued in 1972	f 43.60	10.5	from 1 Jan. 1973 to 31 Dec. 1982
issued in 1973	f 39.—	10.3	from 1 Jan. 1974 to 31 Dec. 1983
4% Debenture loan North American Philips Corporation (N.A.P.C.)	\$ 58.—	57.1	to 1 June 1982
Total convertible debenture loans		742.4	
Total last year		773.1	

The above debentures — except for those of N.A.P.C. — are convertible into ordinary shares of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken and redeemable on or before the date the conversion period ends. The 4% convertible debentures of N.A.P.C. are convertible into ordinary shares of N.A.P.C. up to 1 June 1982 and redeemable on or before 1 June 1992.

If all outstanding convertible debentures were converted into ordinary shares of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken, the result would be an increase of the ordinary share capital by 15,162,059 shares of f 10.

* This convertible U.S. dollar debenture loan has been valued at the conversion price of f 3.60 per U.S. dollar, fixed at the time of issue.

	amount outstanding	falling due within one year from balance sheet date	falling due one or more years from balance sheet date	average remaining period
• Other debenture loans				
Rate of interest:				
4-10% (average 6.4%)	579.6	31.5	548.1	7 years
Last year	645.8	34.1	611.7	
• Other long-term liabilities				
– Private loans from banks				
Rate of interest:				
3.5-13% (average 8.4%)	512.0	79.3	432.7	4 years
– Other private loans				
Rate of interest:				
3.5-10% (average 6.6%)	1,726.0	262.6	1,463.4	5 years
– Participating personnel debentures				
Rate of interest:				
7%+0.2% for every percent of dividend above 6%	251.5	—	251.5	
– Mortgages				
Rate of interest:				
4-9.5% (average 7.1%)	249.5	21.7	227.8	8 years
– Other debts				
Rate of interest:				
4.3-12% (average 8.4%)	100.8	15.3	85.5	5 years
Total other long-term liabilities	2,839.8	378.9	2,460.9	
Total last year	3,651.9	929.8	2,722.1	

Under "Long-term liabilities" an amount of f 1,911.8 m will become payable in the next five years. The part of these liabilities which becomes payable in 1974 is included under "Current liabilities". The personnel debentures, though redeemable on demand, are in fact in the nature of long-term loans.

The following liabilities are secured by collateral in the form of assets:

	1973	1972
Other debenture loans	6.5	7.5
Other long-term liabilities		
Private loans from banks	15.0	8.5
Other loans	62.1	78.7
Mortgages	227.8	172.5
Miscellaneous loans	32.9	54.5

The following liabilities involve commitments not to create a charge on certain assets:

	1973	1972
Private loans from banks	7.6	10.0
Other loans	36.5	50.2

Current liabilities

• Banks

This item includes the part of long-term bank loans falling due in 1974.

	1973	1972
• Accounts payable		
Trade creditors	1,494.0	1,184.2
Short-term loans	498.7	493.5
Amounts payable in respect of pensions	2.6	1.9
Amounts payable to non-consolidated companies	23.8	43.4
Taxes payable (excl. tax on profit)	380.9	325.0
Other current liabilities	850.8	668.9
	<u>3,250.8</u>	<u>2,716.9</u>

The following current liabilities are secured by collateral in the form of assets:

	1973	1972
Banks	188.6	87.8
Other current liabilities	80.9	68.5

The following liabilities involve commitments not to create a charge on certain assets:

	1973	1972
Banks	23.2	105.4
Other current liabilities	8.1	33.7

Guarantees and other contingent liabilities

• Guarantees

The guarantees on behalf of non-consolidated companies and third parties amount to f 610.3 m (f 764.4 m last year).

• Other contingent liabilities

The other contingent liabilities, including long-term lease commitments, amount to f 1,491.6 m (last year f 1,821.5 m). Instalments falling due in the coming year with respect to commitments under leasing contracts amount to f 91.2 m (f 108.4 m last year). Collateral security has been given up to an amount of f 19.0 m (f 24.3 m last year).

Wages, salaries and other related costs

Wages, salaries and other related costs paid in 1973 totalled f 8,580.2 m (f 7,433.0 m last year).

Depreciation of property, plant and equipment

An amount of f 930.6 m (f 895.0 m last year) in respect of depreciation on property, plant and equipment was charged to Profit and Loss Account.

Tax on profit

In 1973 a provision for tax on profit was created, totalling f 962.9 m charged to Profit and Loss Account (last year f 719.3 m). In so far as the cost of sales differs from historical cost, as a consequence of using the replacement value, the tax payable on that difference, amounting to f 124.4 m, is charged to the provision for latent taxes (f 72.8 m last year).

Supervisory Directors' fees

The remuneration paid to the 11 members of the Supervisory Board totalled f 640,000 (f 640,000 last year to 11 members). This amount consists of f 200,000 in fixed emoluments (last year f 200,000) and of f 440,000 (last year f 440,000) in fees, which is included under the item "Supervisory Board, Management and Officers" in the Profit Appropriation on page 45.

Combined Statement of Changes in Financial Position

The statement below summarizes the changes in financial position in the years 1973 and 1972.
"Internal funds" consist principally of:

profit after tax;
depreciation;
the difference between the replacement value and the historical cost of goods sold;
the changes in provisions.

	1973	1972
	in millions of guilders	in millions of guilders
<i>Source of funds</i>		
Internal funds	2,433.5	2,100.6
Shareholders' equity interest	170.2	127.1
Long-term liabilities	-355.5	-557.1
Current liabilities	604.0	143.5
Miscellaneous	-17.3	-26.8
Total	<u>2,834.9</u>	<u>1,787.3</u>
<i>Use of funds</i>		
Investments in property, plant and equipment	1,407.0	946.7
Investments in other fixed assets	72.4	-135.9
Total fixed assets	<u>1,479.4</u>	<u>810.8</u>
Stocks at historical cost	884.1	-129.8
Accounts receivable	745.5	306.0
Liquid assets	-566.5	565.9
Total current assets	<u>1,063.1</u>	<u>742.1</u>
Total assets	<u>2,542.5</u>	<u>1,552.9</u>
Profit distribution	<u>292.4</u>	<u>234.4</u>
Total	<u>2,834.9</u>	<u>1,787.3</u>

Calculation of Net Profit based on American Accounting Principles

The accounting principles applied by N.V. Philips' Gloeilampenfabrieken in calculating profit differ in some respects from those generally accepted in the United States of America. The main differences are:

- Depreciation on property, plant and equipment is based on the replacement value of the assets concerned.
- Stocks are in general valued at replacement value. This value is used for determining the cost of sales.
- In so far as the cost of sales differs from historical cost owing to the use of the replacement value, the tax payable on that difference is charged to the provision made for latent taxes at the time of revaluation.
- Net amounts paid in excess of the net tangible asset value for the acquisition of participations in any year are charged in that year to Profit and Loss Account.
- The share of profit due to the Supervisory Board, Management and Officers and to employees, in accordance with the Articles of Association, is not charged to Profit and Loss Account.

An attempt is made below to estimate what adjustment to net profit would be required if the principles generally accepted in the United States were applied, based on the first-in first-out method for the consumption of goods and using a write-off period of five years for net payments in respect of goodwill.

	in millions of guilders	in millions of U.S. dollars*
Net profit 1973 shown in the Combined Statement of Results	899.1	321.1
Deduct: Profit-sharing with Supervisory Board, Management and Officers and with employees	-52.6	-18.8
Adjustment of net profit on the basis of accounting principles generally accepted in the United States	71.8	25.6
Adjusted net profit	918.3	327.9
Number of ordinary shares of f 10 of N.V. Philips' Gloeilampenfabrieken outstanding at 31 December 1973		163,628,632
Per ordinary share of f 10 of N.V. Philips' Gloeilampenfabrieken:		
Adjusted net profit	f 5.61	\$ 2.00
Dividend	f 1.80	\$ 0.64

Assuming conversion of all outstanding convertible debentures, the adjusted net profit per ordinary share would be f 5.23 (\$ 1.87).

If the method of historical cost had been applied in the past, it is estimated that the item Revaluation Surplus as shown in the Combined Statement of Financial Position as at 31 December 1973, would have appeared as follows:

	in millions of guilders	in millions of U.S. dollars*
Addition to retained profit	1,199.3	428.3
Deduction from property, plant and equipment and stocks	814.6	290.9
	2,013.9	719.2

* Converted at the rate of f 2.80 per U.S. dollar.

Balance Sheet of N.V. Philips' Gloeilampenfabrieken

Assets	1973		1972	
Property, plant and equipment				
Replacement value	3,537.9		3,321.3	
Depreciation	<u>-1,813.8</u>	1,724.1	<u>-1,719.8</u>	1,601.5
Intangible assets		—		—
Investments in subsidiaries and associated companies				
Consolidated companies	8,295.5		7,818.5	
Non-consolidated companies	<u>335.4</u>	8,630.9	<u>306.9</u>	8,125.4
Sundry non-current assets		173.8		94.6
Stocks				
Factory stocks	818.8		696.1	
Commercial stocks	<u>402.8</u>	1,221.6	<u>456.3</u>	1,152.4
Accounts receivable				
Trade debtors	240.7		230.1	
Discounted bills	<u>-1.8</u>		<u>-2.4</u>	
	238.9		227.7	
Other accounts receivable	77.3		73.8	
Prepaid expenses	<u>55.6</u>	371.8	<u>49.3</u>	350.8
Liquid assets				
Marketable securities	36.3		13.6	
Cash at bank and in hand	<u>188.9</u>	225.2	<u>381.4</u>	395.0
		12,347.4		11,719.7

Liabilities	1973		1972	
Shareholders' equity interest				
Ordinary share capital	1,636.3		1,274.1	
Share premium account	280.1		619.3	
Retained profit	3,907.3		3,202.5	
Revaluation surplus	<u>2,013.9</u>	7,837.6	<u>1,715.8</u>	6,811.7
Sundry provisions				
Long-term provisions	960.9		864.2	
Short-term provisions	<u>173.8</u>	1,134.7	<u>104.2</u>	968.4
Long-term liabilities				
Convertible debenture loans	538.1		553.5	
Other debenture loans	303.9		308.4	
Other long-term liabilities	<u>1,233.9</u>	2,075.9	<u>1,532.8</u>	2,394.7
Current liabilities				
Banks	23.9		562.3	
Accounts payable and accrued taxes	784.4		531.9	
Accrued expenses	<u>241.9</u>	1,050.2	<u>256.5</u>	1,350.7
Profit available for distribution	347.2		270.6	
Interim dividend made payable in December	<u>-98.2</u>	249.0	<u>-76.4</u>	194.2
		12,347.4		11,719.7

Profit and Loss Account of N.V. Philips' Gloeilampenfabrieken

	1973	1972
Net profit	904.7	663.7

Eindhoven, 12 March 1974.

The Supervisory Board

The Board of Management

Amounts in millions of guilders

Explanatory Notes to the Balance Sheet of N.V. Philips' Gloeilampenfabrieken

The principles of valuation and of calculating profit will be found in the Explanatory Notes to the Combined Statements on pages 34 and 35

<i>Property, plant and equipment</i>	replacement value	depreciation	book value
Land and buildings	1,842.0 (1,638.1)	746.5 (632.2)	1,095.5 (1,005.9)
Machinery and equipment	1,630.5 (1,621.6)	1,052.4 (1,073.0)	578.1 (548.6)
Dwellings and land	20.6 (20.3)	14.9 (14.6)	5.7 (5.7)
Vacant land	44.8 (41.3)	— (—)	44.8 (41.3)
	<u>3,537.9</u> <u>(3,321.3)</u>	<u>1,813.8</u> <u>(1,719.8)</u>	<u>1,724.1</u> <u>(1,601.5)</u>

The amounts printed in brackets are the corresponding figures as at 31 December 1972.

Investments in subsidiaries and associated companies

- Consolidated companies (see the Combined Statements on pages 31 to 39).

These investments are included at their net tangible asset value, the assets and liabilities of these companies being valued in accordance with the aforementioned principles.

Amounts receivable from consolidated companies are included under this heading and amount to f 2,162.8 m (f 2,204.0 m last year).

Also included under this heading are some loans totalling f 284.3 m (f 283.0 m last year) made by N.V. Philips' Gloeilampenfabrieken indirectly to consolidated companies through the intermediary of third parties.

A list giving the names and registered offices of the companies in which N.V. Philips' Gloeilampenfabrieken holds directly or indirectly more than half of the issued share capital will be deposited for inspection at the Commercial Registry in Eindhoven. The value of the total assets of majority-owned subsidiaries not mentioned is less than 15% of the value of the total assets of N.V. Philips' Gloeilampenfabrieken and its majority-owned subsidiaries.

- Non-consolidated companies

This item includes loans totalling f 0.3 m (f 0.7 m last year); other amounts due from these companies are included under "Trade debtors".

Balance at 31 December 1972	306.9
Changes:	
Investments and changes in loans	13.8
Share in net profit of 1973	42.3
Dividends received	-13.7
Revaluation	-0.7
Others	-13.2
Balance at 31 December 1973	<u>335.4</u>

<i>Sundry non-current assets</i>	1973	1972
Loans secured by mortgage	4.3	4.0
Other loans and sundry non-current receivables	146.3	86.5
Securities not officially quoted	2.6	3.6
Sundry assets not immediately realizable	20.6	0.5
	<u>173.8</u>	<u>94.6</u>

Accounts receivable

- Trade debtors

This item includes trade debts totalling f 83.3 m (f 83.6 m last year) due from companies belonging to the United States Philips Trust, and amounts due from non-consolidated companies totalling f 37.8 m (f 39.4 m last year).

Liquid assets

- Marketable securities

This item includes f 0.6 m (f 0.4 m last year) in ordinary shares of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken.

- Cash at bank and in hand

This item includes an amount of f 25.0 m (f 37.2 m last year) which is repayable at not less than three months' notice.

Shareholders' equity interest

The changes in shareholders' equity interest and the change in beneficiaries' interest in the U.S. Philips Trust are mentioned in the Explanatory Notes to the Combined Statements (see page 37).

Sundry provisions

	1973	1972
• Long-term provisions		
Provisions for latent tax liabilities	425.4	349.8
Provisions in respect of pensions	380.8	335.2
Others	154.7	179.2
	<u>960.9</u>	<u>864.2</u>

Long-term liabilities

- Convertible debenture loans

The convertible debenture loans issued by N.V. Philips' Gloeilampenfabrieken are listed on page 38 in the Explanatory Notes to the Combined Statements.

• Other debenture loans	amount outstanding	falling due within one year from balance sheet date	falling due one or more years from balance sheet date	average remaining period
Rate of interest: 4-8% (average 5.9%)	303.9	—	303.9	7 years
Total last year	<u>312.2</u>	<u>3.8</u>	<u>308.4</u>	
• Other long-term liabilities				
– Private loans from banks				
Rate of interest: 3.5-9.1% (average 7.5%)	89.2	12.0	77.2	3 years
– Other private loans				
Rate of interest: 3.5-8.3% (average 6.6%)	866.2	132.0	734.2	5 years
– Participating personnel debentures				
Rate of interest: 7% + 0.2% for every percent of dividend above 6%	251.5	—	251.5	
– Loans from consolidated companies				
Rate of interest: 6.5-8.9% (average 7.8%)	129.3	—	129.3	4 years
– Other debts				
Rate of interest: 4.3-9.4% (average 9.1%)	46.4	4.7	41.7	8 years
Total other long-term liabilities	<u>1,382.6</u>	<u>148.7</u>	<u>1,233.9</u>	
Total last year	<u>2,203.0</u>	<u>670.3</u>	<u>1,532.7</u>	

The part of long-term liabilities which falls due in 1974 is included under "Current liabilities".
The personnel debentures, though redeemable on demand, are in fact in the nature of long-term loans.

Current liabilities

- Banks

This item includes the part of long-term bank loans falling due in 1974.

	1973	1972
• Accounts payable and accrued taxes		
Trade creditors	101.0	78.1
Short-term loans	140.7	168.3
Amounts payable to non-consolidated companies	3.2	13.9
Amounts payable to consolidated companies	118.6	106.9
Tax on profit	219.0	—
Other taxes	113.9	81.9
Other current liabilities	88.0	82.8
	<u>784.4</u>	<u>531.9</u>

Guarantees and other contingent liabilities

- Guarantees

Guarantees on behalf of non-consolidated companies and third parties amount to f 267.8 m (f 467.9 m last year).

- Other contingent liabilities

The other contingent liabilities, including long-term lease commitments, amount to f 164.2 m (f 152.4 m last year).

The instalments falling due in the coming year in respect of commitments under leasing contracts amount to f 1.8 m.

	1973	1972
In accordance with articles 42, 44 and 45 of the Articles of Association		
Transfer to Retained Profit	558.0	393.0
It is proposed that a dividend be declared of f 1.80 (f 1.80 last year) per ordinary share of f 10 on 163,628,632 ordinary shares (127,408,380 last year). An interim cash dividend of f 0.60 per ordinary share of f 10 has already been paid. It is proposed that holders of ordinary shares who have not opted on or before 31 July 1974 for the payment of a final cash dividend of f 1.20 (last year f 1.20) shall receive a distribution of ordinary shares, chargeable to Share Premium Account, free from Netherlands tax, on the basis of one ordinary share of f 10 for every 25 ordinary shares of f 10 (40 last year). In so far as shareholders do not exercise the option to receive the final dividend in cash, the amount not distributed in cash will be retained by way of reserve, as in the previous year.	294.5	229.3
Supervisory Board, Management and Officers	15.4	12.1
Employees	37.2	29.2
Change in undistributed profit	-0.4	0.1
Net profit	904.7	663.7

**Annual Report of
N.V. Gemeenschappelijk Bezit
van Aandeelen
Philips' Gloeilampenfabrieken**

We have taken note of the proposed Annual Accounts for 1973 of N.V. Philips' Gloeilampenfabrieken (referred to below as N.V. Philips), and agree to them. We therefore intend to vote at the General Meeting of Shareholders of N.V. Philips that the Annual Accounts of N.V. Philips be adopted.

It is also our intention to vote in favour of the other proposals placed on the Agenda of the General Meeting of Shareholders of N.V. Philips.

In view of the foregoing we have had the Annual Accounts of the Company (referred to below as Bezit) drawn up on the basis of the proposed Annual Accounts of N.V. Philips, which form part of the explanatory notes to the Annual Accounts of Bezit.

The Annual Accounts for 1973 have been examined by Messrs. Klynveld Kraayenhof & Co., Registered Accountants. Their report appears on page 30. We ask you to adopt these accounts.

Upon adoption by the General Meeting of Shareholders of the proposals made by the Supervisory Board and the Board of Management of N.V. Philips in items 4 and 5 of the Agenda (see page 48), corresponding proposals can be made to holders of ordinary shares in Bezit. We recommend in that case the declaration of a dividend of f 1.80 per ordinary share of f 10. On 20 December 1973, an interim dividend of f 0.60 was made payable on the ordinary shares. Consequently the final dividend amounts to f 1.20 per ordinary share. We further propose that holders of ordinary shares who have not opted on or before 31 July 1974 for payment of the final dividend in cash shall receive a distribution of ordinary shares, on the basis of one ordinary share for every 25 ordinary

shares. In so far as the final dividend is taken in cash, 25% dividend tax will be withheld.

Holders of priority shares will be paid a dividend of 4%, less 25% dividend tax.

At the General Meeting of Shareholders on 18 April 1973 Mr. H. A. C. van Riemsdijk was re-elected to our Board.

A proposal to amend the Articles of Association was also adopted at this meeting.

The Extraordinary General Meeting of Shareholders on 24 September 1973 unanimously adopted the Board of Management's proposal, which had been approved by the priority shareholders and was made pursuant to a corresponding proposal of N.V. Philips, to issue ordinary shares on the basis of one new share for every four outstanding ordinary shares. The new shares rank *pari passu* with the old shares as from the date of issue.

Furthermore 1,000 ordinary shares were issued in consideration for shares of N.V. Philips to the same nominal amount.

In the course of the year the ordinary shares were admitted for dealings on the Stock Exchanges in London and Oslo. Listing on the London Stock Exchange is subject to the rule that share issues for cash, otherwise than to shareholders of the Company, shall be made solely with the approval of the General Meeting of Shareholders. Such approval may be given for a period of 12 months in advance and shall then relate to no more than 10% of the total share capital issued. It is therefore intended to seek such approval at every Annual General Meeting of Shareholders.

Mr. H. J. R. G. Hartong retires by rotation this year and, being eligible, offers himself for re-election.

Eindhoven, 12 March 1974

The Board of Management

F.J. Philips, Chairman
T.P. Tromp, Secretary
W.A. de Jonge
H.J.R.G. Hartong
H.A.C. van Riemsdijk

Balance Sheet

1973

1972

Assets			
Investments			
Ordinary shares			
N.V. Philips' Gloeilampenfabrieken	1,636,010,000		1,273,855,000
Accounts receivable			
N.V. Philips' Gloeilampenfabrieken			
current account	22,207,000		15,304,000
N.V. Philips' Gloeilampenfabrieken			
dividend account	196,321,000	218,528,000	152,863,000
		<u>218,528,000</u>	<u>168,167,000</u>
		1,854,538,000	1,442,022,000
Liabilities			
Shareholders' equity interest	1,636,060,000		1,273,905,000
Accounts payable			
Unclaimed dividends	22,155,000		15,252,000
Profit available for distribution			
Dividend	294,484,000		229,296,000
Less interim dividend	<u>-98,161,000</u>	<u>196,323,000</u>	<u>-76,431,000</u>
		1,854,538,000	1,442,022,000

Profit and Loss Account

1973

1972

Net profit	294,484,000	229,296,000
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Explanatory notes to Balance Sheet and Profit and Loss Account

- The ordinary shares of N.V. Philips' Gloeilampenfabrieken are shown at nominal value. For the value of the investment (99.98%) reference is made to the annual accounts of N.V. Philips' Gloeilampenfabrieken. These accounts, which include the combined statements of the total interest of shareholders, form part of the explanatory notes to the annual accounts of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken.
- Accounts receivable and accounts payable are shown at their nominal value
- Shareholders' equity interest consists of f 1,636,010,000 in ordinary share capital and of f 50,000 in priority share capital.
- Net profit consists of dividends received on ordinary shares of N.V. Philips' Gloeilampenfabrieken (f 294,482,000) and of interest received in respect of dividends payable on priority shares (f 2,000).
- In accordance with articles 51 and 52 of the Articles of Association it is proposed that the net profit be distributed in full, as follows: f 2,000 to holders of priority shares (f 200 per share) and f 294,482,000 to holders of ordinary shares (f 1.80 per ordinary share of f 10). Of this an amount of f 0.60 per ordinary share of f 10 has already been paid as an interim dividend.

- It is proposed that holders of ordinary shares who have not opted on or before 31 July 1974 to receive the final dividend for 1973 of f 1.20 (last year f 1.20) in cash, shall receive a distribution of ordinary shares, on the basis of one ordinary share of f 10 for every 25 ordinary shares of f 10 (40 last year).
- With reference to the proposed profit appropriation of N.V. Philips' Gloeilampenfabrieken on page 45 it should be noted that it has been assumed in drawing up these annual accounts that a cash dividend of f 1.80 will be paid on all ordinary shares. In so far as holders of ordinary shares do not opt for a cash dividend, the amount not distributed in cash will be retained by way of reserve by N.V. Philips' Gloeilampenfabrieken, in which case the relevant items of the annual accounts will be modified accordingly.
- Six of the ten priority shares are held by the "Dr. A. F. Philips Stichting", a foundation in the Netherlands Antilles which is under the management of Mr. F. J. Philips, Mr. T. P. Tromp, Mr. W. A. de Jonge, Mr. H. J. R. G. Hartong, Mr. H. A. C. van Riemsdijk, Mr. P. H. le Clercq and Mr. H. G. Nijhout. Furthermore Mr. F. J. Philips, Mr. T. P. Tromp, Mr. W. A. de Jonge and Mr. H. J. R. G. Hartong hold one priority share each.

Eindhoven, 12 March 1974.

The Board of Management

Amounts in guilders

Agendas

for the Annual General Meetings of Shareholders to be held at Philips' Jubilee Hall (Jubileumhal) in Eindhoven, on Thursday, 18 April 1974, at 2.30 p.m.

Meeting of N.V. Philips' Gloeilampenfabrieken, beginning at 2.30 p.m.
Shareholders of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken are admitted to this meeting.

1 Opening.

2 Report of the Board of Management for the financial year 1973.

3 Report of the Supervisory Board on the Annual Accounts for 1973.

4 Adoption of the Annual Accounts and declaration of a dividend of f 1.80 on the ordinary shares. An interim cash dividend of f 0.60 has already been paid. It is proposed that holders of ordinary shares who have not opted on or before 31 July 1974 for the payment of a final cash dividend of f 1.20 shall receive a distribution of ordinary shares in accordance with item 5 of the agenda. In so far as shareholders do not exercise the option to receive the final dividend in cash, the amount not distributed in cash will be retained by way of reserve.

5 Proposal of the Board of Management, which proposal has been approved by the Supervisory Board, to make a distribution of ordinary shares, chargeable to Share Premium Account, on the basis of one ordinary share of f 10 for every 25 ordinary shares of f 10; however, no such distribution will be made in respect of those ordinary shares whose holders have opted on or before 31 July 1974 to receive the alternative distribution of the final dividend in cash.

6 Announcement of the Supervisory Board that at the General Meeting of Shareholders on 18 April 1974 three vacancies arise on the Supervisory Board as a result of the retirement by rotation of Mr. H. M. van Mourik Broekman and Mr. J. G. Bavinck, and of the retirement of Mr. J. Rey by reason of his having reached the statutory age limit. Mr. H. M. van Mourik Broekman and Mr. J. G. Bavinck are eligible for re-election. Mr. J. Rey is not eligible for re-election. The Supervisory Board hereby gives notice that, should the General Meeting recommend no other persons to fill the said vacancies, it intends to propose Mr. H. M. van Mourik Broekman, Mr. J. G. Bavinck and Mr. A. Coppé for election as members of the Supervisory Board. The General Meeting is entitled to lodge objection to the proposed appointments. Further particulars relating to Mr. H. M. van Mourik Broekman, Mr. J. G. Bavinck and Mr. A. Coppé are available for inspection at the office of the Company.

7 Any other business.

8 Conclusion.

Meeting of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken, to be held following the meeting of shareholders of N.V. Philips' Gloeilampenfabrieken.

1 Opening.

2 Report of the Board of Management for the financial year 1973.

3 Adoption of the Annual Accounts and declaration of a dividend of f 1.80 on the ordinary shares. An interim cash dividend of f 0.60 has already been paid. It is proposed that holders of ordinary shares who have not opted on or before 31 July 1974 for the payment of a final cash dividend of f 1.20 shall receive a distribution of ordinary shares in accordance with item 4 of the agenda.

4 Proposal of the Board of Management, which proposal has been approved by the Meeting of Priority Shareholders and which is made pursuant to the corresponding proposal to be dealt with at the Annual General Meeting of Shareholders of N.V. Philips' Gloeilampenfabrieken, to make a distribution of ordinary shares on the basis of one ordinary share of f 10 for every 25 ordinary shares of f 10; however, no such distribution will be made in respect of those ordinary shares whose holders have opted on or before 31 July 1974 to receive the alternative distribution of the final dividend in cash.

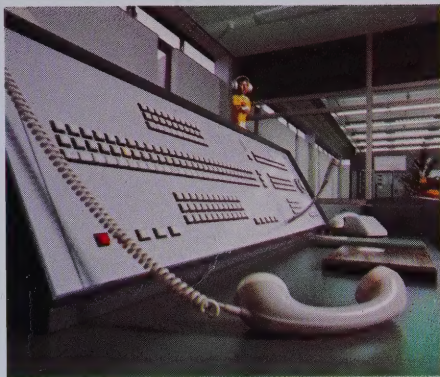
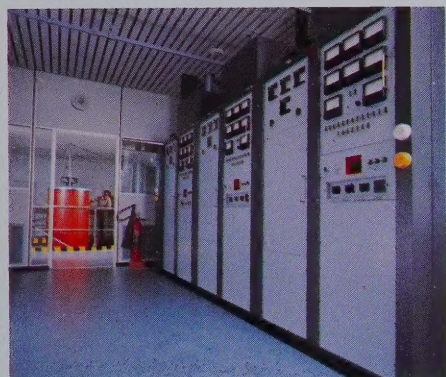
5 Proposal to elect a member of the Board of Management to fill the vacancy resulting from the retirement, by rotation, of Mr. H. J. R. G. Hartong, who, being eligible, offers himself for re-election. The nominations put forward by the Meeting of Priority Shareholders are:

1. Mr. H. J. R. G. Hartong
2. Mr. P. H. le Clercq.

6 Proposal that the Board of Management be authorized — provided the Board of Management deems it desirable on grounds which it considers sufficient — to issue, pursuant to Article 5, paragraph 2, of the Articles of Association, shares or rights thereto, otherwise than to shareholders of the Company, provided the shares so issued do not exceed 10% of the total issued share capital (see page 46).

7 Any other business.

8 Conclusion.



In September Her Majesty Queen Juliana officially inaugurated at Burum (Netherlands) the first Dutch ground station for communications via the international satellite network. Telephone subscribers in the Netherlands now have a number of long-distance overseas connections of excellent quality. The telecommunications equipment involved was largely developed by us; initially, equipment for 132 telephone channels has been installed.



Philips from 1964 to 1973

General	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
<i>Sales</i>	22,563	19,924	18,120	15,070	13,023	9,721	8,695	8,069	7,545	7,002
Increase on preceding year	2,639	1,804	1,367	2,047	1,427	1,026	626	524	543	778
Percentage increase on preceding year	13	10	9	16	12	12	8	7	8	12
<i>Net profit</i>	899	717	343	435	518	439	355	347	399	405
Percentage increase on preceding year	25	109	-21	-16	19	24	2	-13	-2	11
<i>Rate of total capital turnover</i>	1.00	0.94	0.89	0.96	0.97	0.91	0.85	0.82	0.85	0.88
<i>Employees (in thousands) at end of year</i>	402	371	367	359	339	265	241	244	252	252
<i>Wages, salaries and other related costs</i>	8,580	7,433	7,046	5,890	4,913	3,621	3,234	3,076	2,833	2,509
Profit	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
<i>Trading profit</i>	2,597	1,975	1,315	1,280	1,354	1,121	901	862	908	935
As a percentage of sales	11.5	9.9	7.3	8.5	10.4	11.5	10.4	10.7	12.0	13.4
As a percentage of total capital employed	11.5	9.4	6.5	8.2	10.1	10.5	8.8	8.8	10.2	11.7
<i>Profit after tax</i>	966	745	388	446	528	424	341	335	401	412
As a percentage of sales	4.3	3.7	2.1	3.0	4.1	4.4	3.9	4.2	5.3	5.9
<i>Net profit</i>	899	717	343	435	518	439	355	347	399	405
As a percentage of shareholders' equity interest	11.3	10.1	5.3	7.3	9.7	8.8	7.5	7.5	9.2	10.1
Per ordinary share of f 10 (in guilders)	5.17	5.31	2.49	3.29	4.09	3.86	3.04	3.01	3.47	3.72
Per ordinary share of f 10 adjusted for distributions and share premium conversion (in guilders)	5.17	4.24	1.99	2.63	3.27	2.81	2.21	2.19	2.52	2.58
<i>Tax on profit</i>	963	719	362	445	526	431	329	315	347	389
As a percentage of profit	50	49	48	50	50	50	49	48	46	49
<i>Retained profit</i>	552	447	110	193	255	210	126	125	170	206
As a percentage of net profit	61	62	32	44	49	48	36	36	43	51
<i>Dividend</i>	1.80	1.80	1.60	1.70	1.90	1.80	1.80	1.60	1.80	1.60
Per ordinary share of f 10 (in guilders)	1.80	1.80	1.60	1.70	1.90	1.80	1.80	1.60	1.80	1.60

• In calculating the ratios the averages are taken of the total capital employed (excluding investments in non-consolidated subsidiaries and associated companies) and of shareholders' equity interest at the beginning and end of the year.

• At the same time as the distribution of the dividend for 1966 the U.S. Philips Trust made a distribution of U.S. \$ 0.05 per ordinary share of f 10.

• In so far as shareholders do not opt for a distribution in cash, the final dividend for 1973 of f 1.20, as was the case for 1972 (f 1.20), 1971 (f 1.—) and 1970 (f 1.10), will be distributed in the form of ordinary shares chargeable to Share Premium Account, free from Netherlands tax, on the basis of one ordinary share of f 10 for every 25 ordinary shares of f 10 (40 in

respect of 1972 and 1971 and 36 in respect of 1970).

• For calculating the net profit per ordinary share of f 10, net profit is reduced by the amounts distributed to others entitled to a share in the profit and then divided by the number of shares outstanding at the end of the year. Shareholders' equity interest per ordinary share of f 10 is likewise calculated on the basis of the number of ordinary shares outstanding at the end of the year. In calculating the adjusted net profit per ordinary share of f 10 the individual years have been made comparable by taking into account the distributions that have been made (5% in 1964 and 1965; 10% in 1969) and the conversion into share capital of part of the Share Premium Account (25% in 1973).

Financial position	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
<i>Ordinary share capital</i>	1,636	1,274	1,243	1,214	1,169	1,017	1,017	1,017	1,017	968
<i>Preference share capital</i>	—	—	—	—	3	144	144	144	144	144
<i>Share premium account</i>	280	619	640	669	445	456	456	456	456	506
<i>Retained profit</i>	4,520	3,821	3,258	3,033	2,840	2,585	2,375	2,249	2,124	1,954
<i>Revaluation surplus</i>	2,014	1,716	1,590	1,408	1,091	925	795	864	742	621
Shareholders' equity interest	8,450	7,430	6,731	6,324	5,548	5,127	4,787	4,730	4,483	4,193
Minority interests	1,023	907	840	748	681	237	171	166	151	145
<i>Long-term liabilities and provisions</i>	6,306	6,200	6,406	5,324	3,411	3,070	2,505	2,347	1,996	1,770
<i>Short-term liabilities and provisions*</i>	8,408	7,594	7,314	6,692	5,606	3,899	3,627	3,537	3,247	2,697
Total liabilities	14,714	13,794	13,720	12,016	9,017	6,969	6,132	5,884	5,243	4,467
Total capital employed	24,187	22,131	21,291	19,088	15,246	12,333	11,090	10,780	9,877	8,805
Total liabilities as a percentage of total capital employed	61	62	64	63	59	57	55	55	53	51
Shareholders' equity interest per ordinary share of f 10 (in guilders)	51.64	58.32	54.17	52.11	47.43	47.90	44.66	44.11	41.75	40.92

* This heading includes profit available for distribution

Assets employed	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
<i>Property, plant and equipment (book value)</i>	8,358	7,587	7,306	5,514	4,596	3,855	3,615	3,546	3,215	2,900
<i>Other fixed assets</i>	1,300	1,201	1,302	2,407	1,380	1,523	1,121	799	646	548
Total fixed assets	9,658	8,788	8,608	7,921	5,976	5,378	4,736	4,345	3,861	3,448
<i>Stocks</i>	6,430	5,423	5,635	5,307	4,207	2,935	2,775	3,046	2,849	2,481
<i>Accounts receivable</i>	6,852	6,106	5,800	5,117	4,264	3,286	2,836	2,648	2,383	2,147
<i>Liquid assets</i>	1,247	1,814	1,248	743	799	734	743	741	784	729
Total current assets	14,529	13,343	12,683	11,167	9,270	6,955	6,354	6,435	6,016	5,357
Total assets	24,187	22,131	21,291	19,088	15,246	12,333	11,090	10,780	9,877	8,805
<i>Property, plant and equipment</i>										
Book value as a percentage of replacement value	53	54	55	54	53	54	55	56	57	58
Net acquisitions for year	1,005	906	1,287	1,158	715	481	503	563	535	506
Depreciation for year	931	895	835	608	549	461	420	388	351	305
Ratio of net acquisitions to depreciation	1.1	1.0	1.5	1.9	1.3	1.0	1.2	1.5	1.5	1.7
Stocks as a percentage of sales	28	27	31	35	32	30	32	38	38	35
Trade debtors										
Average credit period (in months)	2.6	2.6	2.8	2.8	2.7	2.7	2.7	2.8	2.6	2.6
Ratio of current assets to short-term liabilities and provisions	1.7	1.8	1.7	1.7	1.7	1.8	1.8	1.8	1.9	2.0

PHILIPS

